

CME to Launch Bitcoin Futures on December 18th After CFTC Commissioner Greenlights

() 🕒 December 1, 2017 1:41 pm

CME said today they are to launch bitcoin futures on December 18th after receiving regulatory approval from CFTC earlier today, reuters [reports](https://www.reuters.com/article/us-cme-bitcoin/cme-group-to-launch-bitcoin-futures-contract-on-dec-18-idUSKBN1DV4WC) (<https://www.reuters.com/article/us-cme-bitcoin/cme-group-to-launch-bitcoin-futures-contract-on-dec-18-idUSKBN1DV4WC>).

CFTC Commissioner Brian Quintenz implicitly gave the greenlight yesterday in an inspired speech at the Technology and Standards: Unlocking Value in Derivatives Markets Conference held in London.

“We live in a time of remarkable promise, as both technological advancements and their widespread acceptance and adoption are occurring with such rapidity that the “efficiency horizon” is shifting further out every day,” he said, before [adding](http://www.cftc.gov/PressRoom/PressReleases/opaquintenz4) (<http://www.cftc.gov/PressRoom/PressReleases/opaquintenz4>):

“We need regulation that is fair and does not stifle positive innovations.... CFTC and other regulators, can provide greater regulatory certainty to support innovation that promotes competition, vibrancy, and growth in our financial markets,” he said before highlighting some measures CFTC is taking, including potential rule waivers for Fintech companies.

“Change is all around us, motivating us, challenging us: new technologies result in new products, new processes, even new commodities in the global marketplace,” the commissioner told the audience before addressing one such new commodity. We quote in full:

“Perhaps one of the most prominent ideas associated with FinTech are digital currencies, led by bitcoin. Recently, the Chicago Mercantile Exchange Inc. (CME) and the CBOE Futures Exchange (CFE) began discussions with the CFTC about listing new bitcoin futures products. Bitcoin futures would provide a new platform to gain or hedge exposure to bitcoin’s volatility. Given their novelty, I want to spend a few minutes discussing the CFTC’s oversight over bitcoin futures products.

Prior to listing a new futures contract, the Commodity Exchange Act (CEA) provides exchanges with the option to either (i) submit a written self-certification to the CFTC that the contract complies with the CEA and CFTC regulations, or (ii) voluntarily submit the contract for Commission approval. The two processes are similar in that unless the Commission finds that a new product would violate the CEA or Commission regulations, the exchange may list the new contract.

As a matter of practice, exchanges bring the vast majority of new products to market through the self-certification process. Sometimes in the case of novel products, the exchanges voluntarily provide the Commission staff with advanced draft contract terms and conditions for their proposed futures contracts. This has been the case for bitcoin futures, where although the exchanges plan to use the self-certification process, staff has had the opportunity to review information provided by CME and CFE, engage in many discussions, and evaluate whether any aspects of the contracts raise questions regarding compliance with the CEA and Commission regulations.

One noteworthy CEA provision is that an exchange may not list a contract that is readily susceptible to manipulation.¹⁰ Further, exchanges have a duty to monitor market activity on an ongoing basis to detect and prevent manipulation, price distortions, and, where possible, disruptions in the cash-

settlement process. CME and CFE will use the tools at their disposal, through a combination of real-time monitoring, position limits, and information sharing agreements with the underlying cash exchanges, to prevent and detect manipulative practices. In addition to the exchanges' efforts, the CFTC has its own anti-fraud and anti-manipulation authority. Although there will always be bad actors willing to engage in manipulative or fraudulent practices, the launch of the bitcoin futures contract provides investors with an opportunity to trade bitcoin exposure in a regulated market.

With respect to clearing, the relevant registered derivatives clearing organizations (DCOs) have been providing Commission staff with information about how they intend to manage risks associated with bitcoin futures. Commission staff has been reviewing this information, including examining how the DCOs will satisfy their obligation to establish initial margin requirements that are commensurate with the risks of the contracts.

After any contract is launched, Commission staff will engage in a variety of oversight activities. These activities include monitoring and analyzing open interest, initial margin, and variation payments, as well as stress testing positions. Commission staff also will conduct reviews of exchanges, clearing firms, and individual traders involved in the trading and clearing of bitcoin futures. Further, if the Commission determines that the margin the DCOs hold against bitcoin futures positions is inadequate, it can take measures to require that the margin levels be increased.

Of course, the Commission does not endorse any particular futures contract, including bitcoin. It is incumbent on market participants to conduct appropriate due diligence to determine whether these products, which have at times exhibited extreme volatility, are appropriate for them."

In short, the commissioner appears to be stating that the bitcoin futures were self-certified after taking numerous measures that are complemented by CFTC oversight.

Bitcoin regulated futures therefore are now to launch in just over two weeks, complementing this miraculous year with a visible sign of mainstream acceptance of the newest digital asset/currency.

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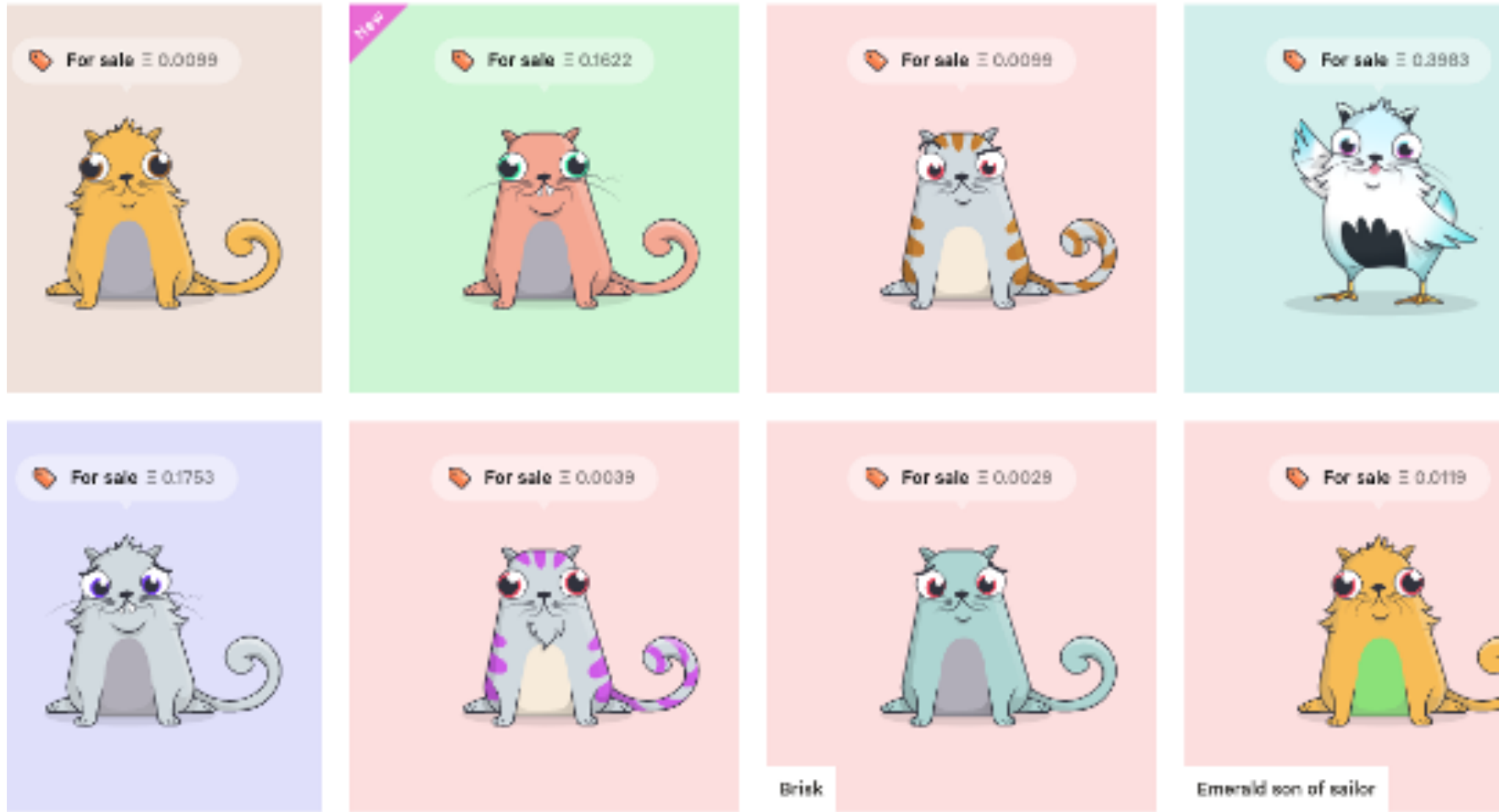


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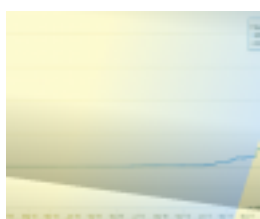


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