Insight

Perpetual Futures: A Primer

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Executive Summary:

- Perpetual futures contracts, or "perps," are financial derivatives with no expiration date that allow traders to hedge financial risk or speculate on an underlying asset's future price; unlike traditional futures contracts, perps use periodic payments between buyers and sellers to keep contract prices aligned with the underlying asset's market price.
- The Commodity Futures Trading Commission (CFTC) has recently approved the sale of perpetual futures contracts tied to certain cryptocurrencies and equities, classifying the former as futures contracts and the latter as security futures contracts; these classifications subject these contracts to the existing regulation governing futures and security futures.
- Critics argue that the CFTC has misclassified these perps as futures and security futures rather than swaps and security-based swaps, respectively, allowing the companies offering these perps to unfairly benefit from less burdensome regulation and exposing retail investors to financial products with unusual and serious risks; this primer examines how perpetual futures work and the controversies surrounding their regulation and sale in the United States.

Introduction

Perpetual futures contracts, or "perps," are financial derivatives whose value depends on another underlying asset. These contracts allow traders to hedge financial risk or speculate on the asset's future price. Unlike traditional futures contracts, however, perps have no expiration date, often trade 24/7 depending on the underlying asset and exchange, and never require the exchange of physical assets. To keep contract prices aligned with the underlying asset's market price, perps use periodic payments between buyers and sellers to

incentivize arbitrage trading that brings the perp's price closer to the underlying asset's price, rather than relying on a fixed expiration date.

Prior to 2026, perps had not been approved for listing on U.S. regulated exchanges. This year, however, the Commodity Futures Trading Commission (CFTC) approved the sale of perpetual futures contracts tied to certain cryptocurrencies and equities. The CFTC has classified the approved cryptocurrency perps as futures contracts (officially, a contract for sale of a commodity for future delivery) and the stock-based perps as security futures contracts. These classifications subject the contracts to the existing regulatory frameworks governing futures and security futures, respectively.

Critics of these approvals argue that the CFTC has misclassified these contracts, contending that they should be classified as swaps and security-based swaps, respectively. (Swaps are another type of financial derivative that obligates traders to exchange payments based on changes in the value of an underlying asset.) Some critics contend that these classifications have allowed the companies offering perpetual futures to unfairly benefit from a less burdensome regulatory framework than companies offering economically similar products classified as swaps. Critics also raise consumer protection concerns, arguing that the wide availability of these contracts exposes retail investors to potentially risky financial instruments. These questions over perps' legal classification are currently being litigated in multiple ongoing cases, including one brought by the Chicago Mercantile Exchange (CME). In court filings, the CFTC has rebutted these critiques, arguing that its classifications of perpetual futures contracts are legally sound and that it has subjected these contracts to the appropriate regulatory requirements. This primer examines how these perpetual futures work and the controversies surrounding their listing and regulation in the United States.

Traditional Futures

To understand perpetual futures, it is useful first to understand traditional futures contracts. Futures contracts are a type of financial derivative – an asset whose value depends on the value of an underlying asset – traded on centralized exchanges. Traditional futures obligate the buyer/seller of the future to buy/sell the underlying asset for a pre-set price at a specified future date known as the expiration date.

Futures contracts are often used to hedge financial risk. Such hedging contracts are common in commodities markets, where producers and purchasers both face financial risk from fluctuating prices. For instance, a potato farmer who believes that potato prices will decline in the future can sell a futures contract on potatoes to sell his potatoes at today's higher prices at a fixed future date.

Futures contracts can also be used for speculative purposes by traders seeking to profit from future changes in the price of an asset. For example, a trader who believes the price of gold will soon increase might purchase a gold futures contract, while a trader who believes the opposite might sell one. Depending on the specific contract, futures may be settled either through an exchange of the underlying asset or through an exchange of cash reflecting the change in price of the underlying asset over the course of the contract.

Two key characteristics are important to understanding how these financial instruments work. The first is that futures contracts can be purchased with significant amounts of borrowed money, known as leverage in the financial world. While the benefit of trading futures with leverage is that a trader's profits can be amplified, the downside is that leverage also magnifies losses. For example, a trader who uses $10 of their own money and $90 of borrowed money to take a $100 position in an S&P 500 futures contract would earn a $5 gain (a 50-percent return on the initial investment) from a 5-percent increase in the S&P 500, while they would lose $5 (half of the initial investment) if the index declined by 5 percent. By contrast, an unleveraged $10 position would generate a gain or loss of just $0.50 from the same 5-percent price movement.

The second important characteristic of futures contracts is that their price should equal the spot price (the price of buying an asset immediately) of the underlying asset on the expiration date of the futures contract. (In reality, the two prices may not entirely converge due to transaction costs and other financial frictions. For this explanation, however, it is useful to abstract away these frictions.) The reason for this convergence is that a discrepancy between the price of a futures contract with expiration date X and the spot price of an asset on date X could allow a trader to make a risk-free profit. Because traders will take any opportunity to make a risk-free profit, any time such a gap opens, even momentarily, traders are likely to step in and push the two prices back toward convergence through supply and demand mechanics.

What Are Perpetual Futures?

Like traditional futures, perpetual futures are a type of financial derivative whose value depends on the value of another underlying asset. Although the idea for perpetual futures was first proposed by Nobel-prize winning economist Robert Shiller in 1993, the current iteration of perpetual futures has its origins in the crypto world.

As with traditional futures, traders can use perps to both hedge financial risk and speculate on asset prices. For example, a trader who holds bitcoin but is worried that the price of bitcoin will fall could sell a perpetual future on bitcoin – which would make money if bitcoin fell in price – to try and hedge losses. A trader who does not hold bitcoin but expects the

same drop in price could similarly short a bitcoin perp to hopefully profit from this change. Perpetual futures, like traditional futures, are also often purchased with significant leverage, enabling traders to boost their potential profits, but also amplify their possible losses.

Perpetual futures are generally cash-settled, meaning that traders realize gains or losses based on changes in the contract's value rather than through a physical exchange of the underlying asset. Perps are also traded on both centralized and decentralized exchanges, the latter of which are typically powered by blockchain technology. Across both types of exchanges, it is common for perps, especially those tied to cryptocurrencies, to trade 24/7. (Some perps, however, trade only at certain hours of the day.)

The key difference between traditional and perpetual futures is that perps do not have an expiration date but can instead be held by traders for as long as they desire (subject to funding costs discussed below). The lack of an expiration date means perps need some other mechanism to keep their price tethered to the price of the underlying asset.

For perps, this mechanism is periodic payments, known as funding payments, between traders holding long and short positions that work to incentivize traders to take positions that push the perp's price back toward the underlying asset's spot price. The terms of these funding payments are typically spelled out in the contract. They are often made every 8 hours (although this varies across different exchanges), while the size and direction of these payments is determined by the difference in price between the perp and the underlying asset.

These payments work as follows:

- If the perp price is higher than the spot price, traders holding long positions pay those holding short positions. This encourages more traders to short the perp to receive funding payments, thereby increasing selling pressure and pushing the perp's price down toward the spot price.
- If the perp price is lower than the spot price, traders holding short positions pay those holding long positions. This encourages more traders to go long the perp to receive funding payments, thereby increasing buying pressure and pushing the perp's price up toward the spot price.

How Large Is the Market for Perps?

The main market for perpetual futures remains the crypto market. In 2025, perpetual futures trading reached a total volume of $62 trillion on crypto exchanges. The spot

cryptocurrency market, by contrast, only experienced about $18.5 trillion in trading volume. (Total volume refers to the total value of transactions, not the total amount of capital invested in the market.) While perpetual futures markets exist for non-cryptocurrency assets, data on these markets is limited because most of these markets exist outside of the United States and its regulatory purview.

How Are Perps Regulated in the United States?

The reason most of these markets exist offshore is that, prior to May 2026, perpetual futures contracts had not been approved for listing in the United States. In May, however, the CFTC gave the prediction market Kalshi approval to list a perpetual futures contract on bitcoin. Kalshi and other exchanges have since listed perpetual futures contracts on other cryptocurrencies as well. In early November 2026, the CFTC further approved the listing of perpetual futures contracts whose underlying assets are a single stock such as SpaceX or Alphabet (Google's parent company). The full list of approved stock-based perpetual futures can be found on the CFTC website.

In the CFTC's approvals of both cryptocurrency perps and stock-based perps, an important, though controversial, detail is how the commission chose to legally classify these financial instruments. For the bitcoin perp discussed above, the commission classified these instruments as futures contracts, basing their approval on Kalshi's analysis and highlighting in particular that the lack of an expiration date does not preclude perps from being classified as futures contracts. While the above discussion of how perpetual futures work might make this classification seem uncontroversial, classifying perps as futures contracts – officially, a contract for sale of a commodity for future delivery – subjects these contracts to the futures-specific regulatory framework.

Critics of this designation – including the Chicago Mercantile Exchange (CME), a regulated futures exchange that has sued the CFTC to block the approval of bitcoin perps – argue that perpetual futures are not legally futures but are instead swaps. In CME's eyes, the term swaps captures "the wide range of contracts under which parties exchange payments based on price changes in an underlying instrument or asset without taking ownership of the underlying or delivery of a cash payment of equivalent value." CME argues that perps meet this definition and should therefore be subject to the swaps-specific regulatory regime created in the Dodd-Frank Act that, some say, imposes more burdensome compliance requirements relative to the futures-specific regulatory regime.

A similar controversy is ensuing over stock-based perps, which the CFTC has approved to be classified as a security futures contract. These financial instruments are defined as "a contract of sale for future delivery of a single security or of a narrow-based security index,

including any interest therein or based on the value thereof." According to the CFTC, stock-based perps meet this definition and should, therefore, be regulated under the existing SEC-CFTC joint regulatory framework for security futures contracts. Critics of the CFTC's approval of stock perps, however, argue that these perps do not meet this definition, as they do not obligate future delivery of a security or an index. Instead, these critics believe that stock-based perps should be classified as security-based swaps subject to the SEC's exclusive regulation and restricted from being sold unfettered to retail investors.

Resolving these controversies will be difficult, as these perps do not neatly fit within the complicated, existing legal distinctions between futures and swaps, or those between security futures and security-based swaps. The Commodity Exchange Act (CEA) does not explicitly define a futures contract but instead uses the broad categorization "a contract of sale of a commodity for future delivery." Security futures have a similarly broad definition: "a contract of sale for future delivery of a single security or of a narrow-based security index, including any interest therein or based on the value thereof." While swaps and security-based swaps are more extensively defined in the Dodd-Frank Act (in fact, the full definitions are too extensive to reproduce here), these definitions do not necessarily provide clear guidelines for classifying new products such as perpetual futures, which seem to share characteristics with both types of financial instruments.

But while challenging, resolving these controversies is important because the regulatory classification of bitcoin and stock-based perps has significant implications. Indeed, the classification of these instruments will determine which regulators have jurisdiction over perps and what regulatory requirements apply to these products. This will, in turn, impact the competitive landscape for financial derivatives and futures/swaps exchanges. For instance, if perps maintain their current classification as futures contracts rather than swaps, platforms operating under the futures regulatory framework could benefit from a less burdensome set of compliance requirements than platforms offering similar contracts subject to the regulatory requirements for swaps. If perps should in fact be classified as swaps, allowing these contracts to remain classified as futures could thus enable some firms to gain a commercial advantage through regulatory arbitrage rather than on the merits of their products or services. Allowing such unwarranted advantages to exist could also undermine confidence in the broader financial system if market participants believe regulators are not applying equal rules to competing products.

Of course, none of this is to say that perps should be classified as futures or swaps; that is an issue that will be determined through the litigation discussed above. Thinking through the consequences of the eventual classification of perps, however, underscores the importance of the regulatory classification of these new instruments for firms and the

financial system.

Why Does Perps Regulation Matter for Consumers?

The classification and regulation of perpetual futures also has important implications for consumers. One is that, because of the ability to use leverage in perps trading, offering perps to the public may expose retail investors to the risk of serious losses. This potential risk is heightened by perpetual futures exchanges' "auto-liquidation" feature, which automatically closes a trader's perps trade when their account no longer has sufficient funds to meet an exchange's requirements for maintaining leveraged trades. Because perps trades are often highly leveraged, even small changes in the underlying asset's price can trigger auto-liquidation, forcing investors to take on losses that could amount to losing most or all the money they put into perps contracts.

There are, however, positive potential implications for consumers as well. One possible benefit is that, because many perps are traded 24/7, retail investors could use perps to make profitable trades outside of traditional market hours. To wit, while U.S. users are currently restricted from accessing Hyperliquid, a popular blockchain-based perps exchange, traders around the world (likely along with some U.S. traders using virtual private networks, according to *The Wall Street Journal*) have flocked to the platform in hopes of profiting off fluctuations in oil prices that occur when traditional oil trading markets are not open. It is worth noting that this opportunity for profit may soon become (legally) available to U.S. users, as Intercontinental Exchange, the parent company of the New York Stock Exchange, has announced plans to bring Hyperliquid-style perpetual futures contracts to the United States through approved regulatory channels.

Conclusion

Perpetual futures are financial derivatives that do not expire, often trade 24/7, can be purchased with significant amounts of borrowed money (known as leverage), and use periodic payments between buyers and sellers to keep contract prices aligned with spot asset prices. Although the Commodity Futures Trading Commission has recently approved the sale of perpetual futures contracts tied to certain cryptocurrencies and equities, critics argue that the CFTC has misclassified these perps as futures and security futures rather than swaps and security-based swaps, respectively. As the regulatory classification of these contracts will play a significant role in determining the implications of perps for market competition, consumer protection, and the opportunity for consumers to profit from these financial instruments, the outcome of ongoing litigation over the legal classification of these instruments is worth monitoring.