

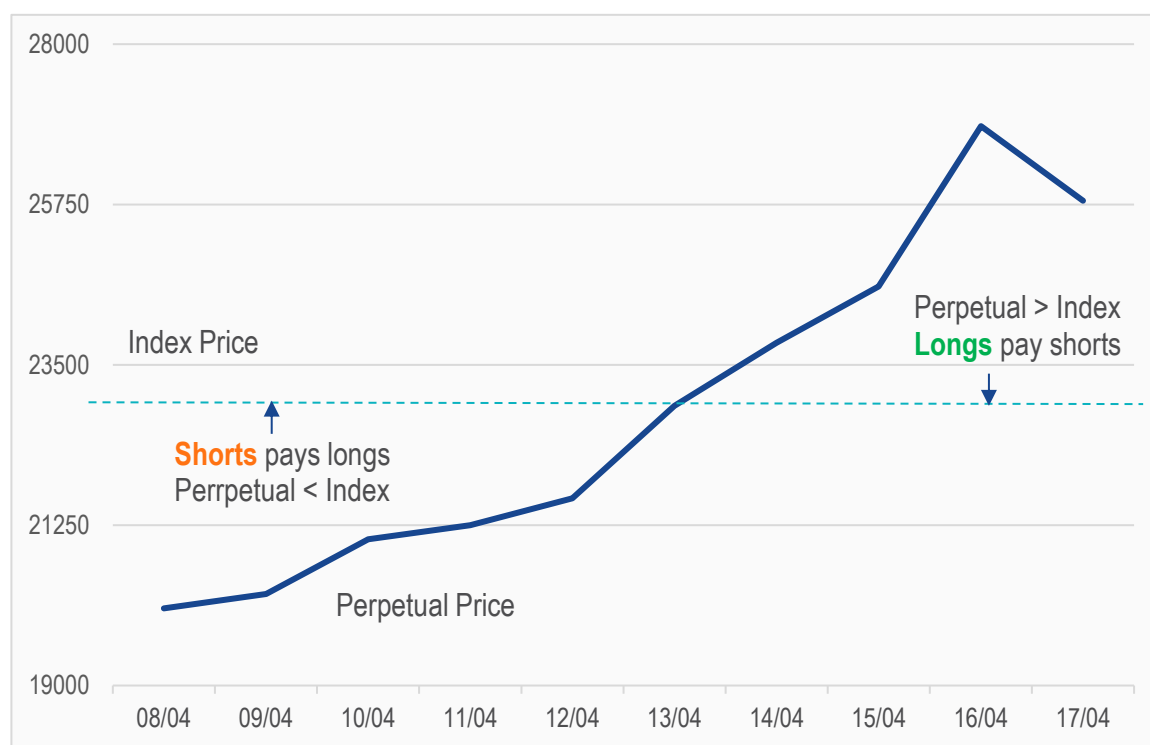
Perpetual swaps: A never ending story....

What are perpetual swaps?

Financial derivatives are designed to track the price of an underlying asset for example Bitcoin or Ethereum. Vanilla futures contracts have an expiry date. This fixed expiration is what causes the future to track the price of the underlying asset. However, Futures can trade at a discount or a premium. Any difference will converge towards zero as they will settle against the underlying spot price at expiration. The price difference tends towards zero as the time to expiration shortens accordingly.

Perpetual swaps lack this expiry date so they need another mechanism by which market participants are incentivized to keep the price of their perpetual swaps close to the index price. A funding mechanism ensures that a payment is made from one side of the trade (long or short) to the other. When the price of the perpetual swap is lower than the underlying (index), Longs are paid by shorts. This is also known as negative funding, which has the effect of discouraging new short positions and encouraging long positions until the price gets closer to the index again. When the price of the perpetual swap is higher than the index, shorts are paid funding by longs. This encourages new short positions so that the swap price converges to the index price again. This is called positive funding. Generally speaking, the further away the swap price trades from the index price, the larger the funding rate.

Exhibit 1: How Funding Rates work



Source: MV Index Solutions, Firefly”Primer on Perpetual Swaps”

Perpetual swaps are a popular product amongst traders and investors. Several features makes it an unique product in the crypto space:

- There is no expiry date. Investors can hold it as long as they want, without the need of rolling the contracts.
- The underlying asset itself is never traded, meaning there are no custody issues.
- The swap price closely tracks the price of the underlying asset
- It’s easy to short.

MVIS Indices underlying perpetual futures

In 2021, crypto derivatives exchange FTX¹ launched two perpetual futures products licensed on MV Index Solutions (MVIS) Indices: MVIS Digital Assets 10 Index Perpetual Futures (MVDA10-PERP) and MVIS Digital Assets 25 Index Perpetual Futures (MVDA25-PERP)². Every hour, each perpetual contract has a funding payment where longs pay shorts if perpetual is trading at a premium to the index, and shorts pay longs if trading at a discount to the index. This funding payment is based on a time-weighted average price (TWAP)³. This payment is added/deducted to the account's USD balance. FTX supports up to 20x leverage. The MVIS multi-coin indices, as a perpetual swaps, enable investors to participate in the development of the cryptomarket, without being exposed to a single token. Investors can choose between a Top 10 or Top 25 marketcap weighted index. Realtime data enable the 24/7 trading of those baskets.

Exhibit 2: Total Return Performance since Inception, Source: MVIS



Source: MV Index Solutions.

About MV Index Solutions - www.mvis-indices.com

In 2017, MVIS became the first regulated index provider to launch a series of digital assets indices designed to most accurately track the performance of the otherwise fragmented global digital assets markets. These indices were the first to meet investment industry benchmarking standards by providing a public rulebook, industry-wide data distribution, proper identifiers and further standard index governance requirements. Today, MVIS is regulated under the EU Benchmark regulation directive and is the first index provider with such regulatory status to offer transparent and industry standard digital asset indices.

¹ FTX is a cryptocurrency derivatives exchange that offers futures, leveraged tokens and OTC trading. www.ftx.com

² MVDA10-PERP and MVDA25-PERP are based on the MVIS CryptoCompare Digital Assets 10 Index ([MVDA10](#)) and MVIS CryptoCompare Digital Assets 25 Index ([MVDA25](#)). MVDA10 and MVDA25 are modified market cap-weighted indices which track the performance of the 10 and 25 largest and most liquid digital assets. To ensure investability, MVIS CryptoCompare indices undergo rigorous liquidity screenings..

³ TWAP = $((\text{Future} - \text{Index}) / \text{Index}) / 24$

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MV Index Solutions GmbH

Frankfurt Office
Kreuznacher Str. 301350
DE-60486 Frankfurt am Main
+49 (69) 4056 695 55

New York Office
Avenue of the Americas, Fl 4
New York, NY 10019

(646) 380 2500