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Euphoria for Bitcoin Futures Conjures Bad CDO Memories for One Firm

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Themis Trading is raising a red flag about the exuberance surrounding CME Group Inc.'s plans to introduce bitcoin futures by the end of the year.

The Chatham, New Jersey-based institutional-brokerage firm says the CME is caving in to clients who are asking for ways to trade bitcoin, even though the CME knows the exchanges on which they're basing their bitcoin index are questionable. The index would determine the prices on which the futures will be settled in cash.

"We think that the CME knows that the underlying market for bitcoin is very suspect. We think they know that the bitcoin exchanges have been subject to numerous cases of fraud and theft over the past few years," **Themis Trading** wrote in a blog post today. So the exchange created the CME CF Bitcoin Reference Rate and "just like that, the creation of an index has apparently legitimized bitcoin trading."

Themis says it would be dangerous and irresponsible for the Commodity Futures Trading Commission to approve bitcoin futures proposals, as the products are like collateralized debt obligations, which placed a seal of approval on very risky mortgages and helped fuel the 2008 financial crisis. The firm's biggest fear is that if the CFTC approves bitcoin futures, the Securities and Exchange Commission might approve bitcoin exchange-traded funds. In that case, the ETFs would get "buried in numerous portfolios that do not have a risk tolerance for trading an asset that is unregulated."

Asked whether he's concerned about a potential bubble, CME Chief Executive Officer Terry Duffy said yesterday on Bloomberg TV that the firm's job is to "manage risk, not decide what the price of a product is." Duffy also said the CME isn't helping bitcoin traders skirt financial system as the contracts will follow regulations.

The CFTC has already approved bitcoin futures. They registered LedgerX as a federally regulated crypto derivatives trading platform and clearinghouse in July. Bitcoin futures have already been trading on a the platform for about a month. Just like the CME, the CBOE is also waiting for CFTC approval, but if a startup could win approval, it's unclear why the biggest derivatives exchanges in the U.S. wouldn't be able to.

It remains to be seen though, whether this will sway the SEC towards approving the long awaited and feared bitcoin ETF.