Futures and Forks

It's been exciting time for BTC and crypto-currencies in general when BTC broke the un-imaginable barrier of $10000 per one BTC. Investor and institutional investor are growing and CME will start trading futures on BTC price. The futures will be settled in cash (no physical delivery of BTC will be involved) and will depend on the average price of various exchanges that trade BTC.

It will be interesting to watch whether the futures will tame BTC volatility as some financial executives hope and thus it will make BTC more palatable as an asset to hold for banks and other financial intermediaries. I think the clearing houses are experienced enough to handle the daily BTC volatility and put enough safeguards checks and balances to prevent any risk for the clearing house itself when they handle BTC settlement issues.

However another question arises how the clearinghouse will handle potential forks when the future will trade. Consider for a moment a future on a stock paying a dividend or a bond. It goes without saying that the clearing house will settle the futures on a stock (be it a physical delivery or cash) or a bond including not just the future price but also any potential dividend or any interest paying on a bond. Similar thing occurs with a stock split or a merger event during the future active trading. The clearinghouse will adjust the price of the future for a merger or a split and will settle the claim accordingly.

The BTC forks occur when BTC code is being changed and anybody who owned BTC at this particular point in time adds with another crypto-currency who is a BTC offspring. It is similar to a family situation when a new child is born and becomes instantly a family member. However the average price of BTCs doesn't reflect these new members of the BTC family. Consider for example the two big splits of BTC into BCH (Bitcoin Cash) and BTG (Bitcoin Gold) the owners of BTC ended up owning these new currencies if they owned BTC at the time of the fork but the BTC index doesn't incorporate the price of these two currencies into its price action. Thus people who would buy futures will lose these potential gains that BTC holders could've gained if the fork occurred when the future contract started to trade.

The failure of the clearing houses to incorporate forks may lead into fiduciary conflicts once BTC future holders realized that these potential forks are not accounted into the future settlement practices (as this create an unfair advantage for the BTC futures and will lead to arbitrage opportunities). The question of Forks and Futures are an interesting one and may lead to unexpected developments for future BTC traders.

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