Perpetual funding, explained

> **FUNDING RATE**
>
> The mechanism that tethers a perpetual future - a derivative with no expiry - to spot: longs and shorts pay each other a periodic funding rate, typically every eight hours, sized to pull the perpetual's price toward spot. It is a real, recurring cash flow, it can be paid or received, and it is taught here as market structure. UK note: the FCA has banned the sale of crypto derivatives - perpetuals included - to retail consumers since January 2021; this lesson explains how funding works and why it moves spot, not how to access a product UK retail cannot be sold.

The leverage layer of module 1 runs on perpetuals, and perpetuals run on funding. Understanding funding is understanding what moves crypto's spot price - which is why this spot-first track teaches the mechanism, with its access stated honestly.

The regulatory statement, first

Perpetual futures are crypto derivatives, and in the UK the FCA has prohibited their sale to retail consumers since January 2021, along with crypto CFDs, futures and ETNs. This track teaches funding because perpetuals dominate crypto trading volume and their mechanics move the spot market every reader can access - not as an assumption that the reader can or should trade them. Where the reader is is a jurisdictional fact; the mechanism is taught for comprehension, and no lesson here implies a UK retail route to these products.

How funding works

The tether problem: a perpetual never expires, so it has no convergence to pull it to spot - the futures track's expiry mechanism is absent, and something must replace it.The funding solution: at each funding timestamp, if the perpetual trades above spot, longs pay shorts a rate proportional to the gap; if below, shorts pay longs - a recurring payment that makes holding the expensive side costly and the cheap side rewarded, dragging the price back.The cash flow: funding is paid in cash between position holders - not a fee to the exchange - typically every eight hours, and it compounds for anyone holding across many periods.

Why the spot trader must understand it

Because funding drives the leverage cascades that move spot. When funding is extreme - heavily positive, longs paying dearly - it signals crowded long leverage, and a downward spot nudge can trigger the liquidations of module 1 that cascade; extreme negative funding signals the mirror. The spot holder who ignores funding is ignoring the pressure gauge on the leverage layer that moves their asset - which is exactly why a spot-first track spends a lesson on a derivative its readers may not trade. The next lesson prices funding as a cost for those who can access perpetuals, and reads it as a signal for everyone.

Check your understanding

1. What does the funding rate replace in a perpetual future?

a. The commission

b. The expiry: with no expiry to force convergence to spot, funding payments between longs and shorts pull the price back instead - a continuous tether replacing the futures track's date

c. The margin requirement

Answer: b. A perpetual never expires, so it lacks convergence. Funding is the substitute mechanism - a recurring cash flow that makes the expensive side costly to hold.

2. Why does a spot-first track teach funding at all?

a. It assumes readers trade perpetuals

b. Funding drives the leverage cascades that move spot: extreme funding signals crowded leverage, and its liquidations move the asset every reader holds - taught as structure, with UK access barred and stated

c. Funding applies to spot positions

Answer: b. The mechanism moves the spot price whether or not the reader can trade the perpetual. The FCA ban is stated; the structure is taught for comprehension, not access.