

May 15, 2017

VIA FACSIMILE AND FEDERAL EXPRESS

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

**Re: (Release No. 34-80206; File No. SR-BatsBZX-2016-30)
Statement in Opposition to Disapproval Order (pursuant to Release No. 34-80511)**

Dear Mr. Fields:

Susquehanna International Group, LLP (collectively, with its related and affiliated entities, "SIG") submits this Statement in opposition to the disapproval by the Division of Trading and Markets (the "Division"), pursuant to delegated authority, of the above-captioned proposed rule change (the "Proposed Rule") of Bats BZX Exchange (the "Bats Exchange") to list and trade shares of the Winklevoss Bitcoin Trust (the "Trust"), which would hold only bitcoin as an asset (the "Disapproval Order"). The investment objective of the Trust would be for Trust shares to track the price of bitcoin on the Gemini Exchange ("Gemini").

At the heart of the Disapproval Order lies a concern about the susceptibility of bitcoin, and consequently of Trust shares, to manipulation. As an active participant in both the spot bitcoin markets and across the universe of derivative and exchange-traded products, SIG appreciates the opportunity to share its perspective on bitcoin and the Trust shares in an effort to

assuage concerns about the viability of such a bitcoin-based commodity-trust exchange-traded product in today's marketplace.

In this regard, SIG aims to address the Division's concerns regarding manipulation in two ways. First and foremost, SIG wishes to discuss the Trust's in-kind creation / redemption mechanism and the manner in which it serves to protect Trust shares against manipulative trading activity in the underlying asset, bitcoin. Second, SIG offers some observations regarding recent developments in the global bitcoin marketplace that it believes have a material bearing on the concerns raised in the Disapproval Order regarding lack of proper oversight and regulation.

For a bitcoin-based ETP, the in-kind creation / redemption mechanism will naturally and fundamentally protect against manipulative trading activity.

The Division's discussion of manipulative trading activity in the Disapproval Order centers primarily on the notion that "the manipulation of asset prices...can occur simply through trading activity that creates a false impression of supply or demand, whether in the context of a closing auction or in the course of continuous trading" (p.31). Extending this principle, the Division expresses concern that "it might be quite possible to acquire a [bitcoin] position large enough to temporarily move the price on a single, less-liquid bitcoin trading market" (p.31).

Relatedly, the Division also expresses two primary concerns about Gemini in particular. First, it indicates that the seemingly limited pool of liquidity available on that particular exchange might not be sufficient to comfortably accommodate a spike in trading volumes brought about by creation and redemption activity for Trust shares. Second, it also expresses that this lack of capacity might render the exchange particularly vulnerable to manipulative trading behavior in the event that Trust shares were publicly listed and traded. After

acknowledging a debate among commenters as to whether Gemini “conducts sufficient volume to support the Winklevoss Bitcoin Trust” (p.32), the Division referenced a number of self-reported statistics from Gemini to conclude that “creation or redemption activity on the Gemini Exchange might dwarf other trading” on the venue (pp.33-34). It is notable that, in so doing, the Division focused on Gemini’s closing auction, perhaps due to the fact that the Trust’s Net Asset Value is marked to the clearing price of the 4:00 pm Gemini Auction.

The above statements suggest that the Division’s apprehension relating to manipulative trading activity, both broadly in the bitcoin ecosystem and more specifically on Gemini, is rooted largely in the concern that price dislocations on a single trading venue can lead to significant (and harmful) price movements in the worldwide bitcoin spot markets and / or at the Trust share level. This line of thinking may lead to the fear that an unscrupulous market participant could artificially drive up the price of Trust shares to its advantage by temporarily moving the price of spot bitcoin on a single, less liquid bitcoin trading market. Such a concern, however, is premised on the assumption that liquidity providers quoting Trust shares would make their markets around the spot price of bitcoin on that single exchange, or proximate to a fair value that is materially impacted by the temporary price dislocation on that single spot exchange.

SIG submits that two essential (and related) characteristics of the Trust shares and the worldwide spot market for bitcoin largely would nullify this assumption and thereby could serve to assuage this concern. First, the creation and redemption of Trust shares would be governed by an in-kind mechanism by which creating market participants deliver the requisite quantity of spot bitcoin to the Trust in exchange for Trust shares (and vice versa in the case of a redemption). Though the Trust’s Net Asset Value may be marked to the clearing price of the 4:00 pm Gemini Auction or other benchmarks established by the Trust, a creating (or redeeming) party is in no

way compelled or required to purchase (or sell) any bitcoin in said auction or on said exchange at all.

In fact, in a creation transaction, the Trust is entirely agnostic as to where or how the bitcoin being delivered was obtained by the creating party. The bitcoin used for a creation of Trust shares can be sourced by liquidity providers from any venue they choose, whether on exchange or OTC. The price at which they expect to be able to obtain that bitcoin will influence the price at which they would be willing to sell Trust shares. Since there is no guarantee that Gemini, or any other exchange, will always offer the most efficiently-priced bitcoin liquidity at any given moment, there is no direct or necessary link between the spot price of bitcoin on Gemini (or any other single exchange or venue for that matter) and the price of the Trust shares. Rather, the price of the Trust shares will more likely be reflective of the level at which bitcoin is trading globally across all venues accessible to liquidity providers. This breadth of supply options would materially mitigate the susceptibility of the Trust shares to manipulation as a consequence of trading activity in the underlying on Gemini or another venue.

Second, worldwide spot bitcoin trading takes place across quite a large number of venues¹. This carries a crucial implication for the price of bitcoin worldwide—as Craig Lewis stated in his white paper submitted to the Commission in support of the SolidX Bitcoin Trust, “since each exchange is an independent entity, a liquidity event on one exchange does not necessarily propagate across other exchanges” (Lewis, p. 9). With global supply and demand for the asset distributed across a large number of trading venues worldwide, creating a “false impression” of these market dynamics in any meaningful global scale would prove exceedingly

¹ Though perhaps not indicative of an exact figure, the website data.bitcoinity.org offers summary transaction data for 38 different bitcoin exchanges across the globe. All volume related data within this Statement was obtained from this website.

difficult. It is also worth noting that the number of spot bitcoin exchanges worldwide far exceeds the number of trading venues for many commodity futures, some of which are underlying assets of existing commodity ETPs. It could be argued, therefore, that the widespread nature of global bitcoin liquidity helps render it less susceptible to manipulation via trading activity on a single exchange, as compared to some less-liquid commodity futures that trade on only a handful of exchanges in total.

When making markets on a bitcoin ETP with an in-kind creation / redemption mechanism, liquidity providers will quote a bid and offer around what they deem to be the prevailing market price of bitcoin at that particular moment in time. Because of this in-kind mechanism, an assessment of prevailing market price would be derived largely from the various prices at which liquidity providers can realistically expect to source liquidity in the underlying asset. Consider the example of a market maker who can trade on four different bitcoin exchanges, as well as with a number of OTC counterparties. While a manipulative trade or aberrant print on Gemini, for instance, may affect the liquidity available to the market maker on that exchange, it is free to source bitcoin from any of the other venues that most likely will have remained substantially (if not completely) unaffected by the anomalous behavior on Gemini. Consequently, that market maker's bid and offer on an in-kind bitcoin ETP would remain unaffected by the anomalous event on Gemini.

To further illustrate the relative advantage of the in-kind creation / redemption arrangement, it is useful to consider an alternative scenario in which creations and redemptions of Trust shares must be accomplished by way of an all-cash transaction, instead of in-kind. In such an arrangement, a creating market participant would deliver to the Trust an amount of U.S. dollars equal to the product of the fund's Net Asset Value multiplied by the number of shares

being created (instead of simply delivering the set quantity of bitcoin as in the in-kind process). When one considers that the Trust's Net Asset Value would be marked to the clearing price of the 4:00 pm Gemini Auction, and that the amount of cash that a creating market participant would have to deliver in a cash creation of Trust shares would be derived directly from that day's Net Asset Value, the concerns in the Disapproval Order regarding the potential for manipulation of the 4:00 pm Gemini Auction are clearly present and apparent. For this reason, among others, SIG believes that the in-kind creation / redemption process proposed by the Trust would be far superior to a cash-only process.

In summary, the in-kind creation / redemption mechanism of the Trust shares would allow market participants to source primary market liquidity freely and at the most efficiently-priced levels across multiple exchanges and OTC counterparties, thus largely insulating investors in the Trust shares from manipulative activity on any one platform.

Recent material developments in the worldwide bitcoin spot markets have positively impacted their potential for improved oversight and regulation.

In January 2017, major Chinese bitcoin exchanges OKCoin, Huobi and BTCC implemented changes requested by the People's Bank of China to halt margin lending and to institute transaction fees. These changes were put in place to discourage price manipulation, drive down "fake" trading volume and dampen bitcoin volatility. These changes have had a number of profound and beneficial effects on bitcoin spot markets worldwide.

In its Disapproval Order, the Division observed that "only a minority of the global spot bitcoin exchanges are subject to any regulatory regime" (p.28). In support of this statement, the Division cited the Bats Exchange's observation that Gemini and itBit—each overseen by the

New York State Department of Financial Services ("NYSDFS") —were the only two bitcoin exchange operators that are subject to substantive regulation. A snapshot of bitcoin exchange market share from early 2017 underscored this concern. On January 23, 2017, the day before the above-mentioned transaction fees went into effect in China, Gemini and itBit held a combined rolling 20-day average market share of only 0.33% of total worldwide bitcoin volume. OKCoin, Huobi and BTCC, on the other hand, commanded a market share of 94.24%.

While the Division's contention still largely holds true today, two important developments have taken place since mid-January of this year. First, the size and importance of Gemini and itBit have grown substantially in the ensuing months. From January 23, 2017 to May 10, 2017, the combined total market share of Gemini and itBit has jumped from just 0.33% to 7.14% of total worldwide bitcoin volume, equivalent to more than 10,000 bitcoin per day on average.² For reference, the aggregate market share of OKCoin, Huobi and BTCC is now down to 26.23%, or roughly 36,000 bitcoin per day on average.

Second, beyond the growth of Gemini and itBit alone, the geographic distribution of bitcoin spot trading has changed substantially, shifting in focus from Chinese-based platforms more towards U.S.-based venues, which bodes well for the prospect of increased transparency and safer regulation in the near future. Though Gemini and itBit remain the only two NYSDFS-regulated bitcoin exchanges in today's marketplace, and while a market share of 7.14% leaves significant room for further growth, the broader migration of global bitcoin trading volumes since mid-January's Chinese regulatory changes serve as grounds for considerable optimism. Alongside the growth of Gemini and itBit, two other U.S.-based exchanges, GDAX and Kraken,

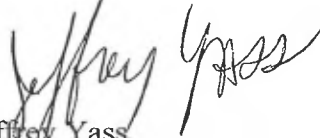
² If this level of growth continues, the Division's concern noted in the Disapproval Order that "the Gemini Exchange does not, at this time, trade a significant volume of bitcoin relative to the overall market for the asset" (p.32) may soon be dispelled.

have gained in prominence as significant spot bitcoin trading venues. Combined, these four largest U.S. bitcoin exchanges now represent over 29% of total worldwide bitcoin volume, up from just 1.47% on January 23, 2017. With almost one third of total global spot bitcoin volume (over 40,500 bitcoin per day on average) now occurring across four major U.S.-based trading venues, regulatory agencies and Self-Regulatory Organizations in this country find themselves with the opportunity to grow and develop a robust framework of regulatory oversight and transparency supportive of fair and orderly markets for both spot bitcoin and listed bitcoin-based ETPs.

As an aside, SIG expects that the launch of a regulated, U.S.-listed bitcoin ETP will help drive further bitcoin trading volume onto U.S.-based exchanges. The buying of bitcoin to deliver for a creation order, the selling of the asset on the back of a redemption order and the two-way activity in the underlying for intraday hedging purposes would supplement the exchange-listed and OTC spot liquidity already available. This supplemental liquidity is likely to manifest itself mainly on U.S.-based bitcoin exchanges such as Gemini, itBit, GDAX and Kraken, which will be the most liquid venues during U.S. trading hours.

For all of the reasons stated above, SIG respectfully submits that the Commission should reverse the Disapproval Order and approve the Proposed Rule. Please feel free to contact the undersigned with any questions and thank you for the opportunity to submit this Statement.

Sincerely,



Jeffrey Yass,
Managing Director