Robert W. Errett, Deputy Secretary
Securities and Exchange Commission
100 F Street, NE Washington, DC 20549-0609

November 21, 2016

Via e-mail: rule-comments@sec.gov

Re: Comments on SR-Bats BZX-2016-30 (Winklevoss Bitcoin Shares)

To Whom It May Concern,

We trade in the equity, commodity, and currency markets. We trade bitcoins and other digital currencies. We seek to provide our views on the proposed ETF and to address issues raised by previous commenters in regards to the suitability of the product for general investors.

What is Bitcoin?

To begin with, we are of the view that Bitcoin has features more similar to gold than to any sovereign currency. However, one could argue that its practicality sits squarely between a commodity (precious metal) and a currency.

While Bitcoin is not backed by the full faith and credit of any sovereign entity, it still shares some aspects of currency: it is divisible, it is easily transferable and it is arguably fungible. Where it differs from currency is that it is completely decoupled (decentralized) from any sovereign fiscal or monetary policy and therefore does not respond to the same sets of economic levers as a fiat currency. This is where Bitcoin more closely resembles gold; it is scarce due to its limited supply and arguably of limited practical use. In that sense, at least as of today, its utility depends primarily on its practicality as a store of value and its price depends largely on what people will pay for it.

It is, possibly, in that respect that many commenters liken the concept of Bitcoin with a Ponzi scheme or a penny stock. A Ponzi scheme typically promises all investors outsized returns over and beyond the return of principal, but depends on an everlasting flow of later stage investors to replace early stage investors. Bitcoin, however, does not yield interest and does not promise any type of return, and does not warrant or represent anything either. Bitcoin stands on its own, as does the Internet today, in a decentralized network of nodes and miners that have an incentive to keep the system working in an orderly fashion.

Today, Bitcoin's value depends largely on what people will pay for it, since it has limited practical use in industry. Similar to an art piece, it is certain defining aspects that give it its value, such as colors, brush strokes, style, sentimental value or whatever other metrics that an art collector may see in a piece. For Bitcoin, it is the aforementioned metrics of fungibility,

divisibility, immutability, transparency (open-source), and global transferability (speed and ease). These are powerful features that clearly sets it aside as a valuable asset.

The question of insurability

As with most new technologies, it is unrealistic to expect that established industries will quickly develop an expertise or interest in these new products. The insurance industry does not currently have the ability to meaningfully model and price the risks associated with Bitcoin storage and transmission. Consequently, insurance for Bitcoin remains expensive and full of policy exclusions. We assume that the sponsors of the ETF have likely weighed the pros and cons of insuring the ETF at a high price or essentially self-insuring until the insurance market catches up and makes insurance reasonably available. We would deem that charging investors a high management fee to cover an inefficiently priced insurance premium is a risk likely greater and more impactful to investors than putting in place a comprehensive set of mitigation measures to address the largest risks of custodying bitcoins: namely security risk and risk of loss of access. Also it is advisable that the sponsors show clear proof of ownership and control through a transparent and audited process.

The question of technology shifts

In regards to the future potential of new technologies to disrupt Bitcoin and therefore the ETF, whether through an evolution of Bitcoin's protocol, digital currencies or the advent of quantum computing, we believe in the efficiency of markets to efficiently price these risks. It is, after all, the role of the market to do so. It would seem strange for a regulator to be put into the position of gating new security issues based on future technology risk factors, so long as these factors are properly disclosed. Due to the open source nature of Bitcoin, the technology risk factors are discussed openly in forums available to the public. Therefore, the investing public has ample opportunity to research these factors in the context of the ETF, just as the public does for all other publicly traded securities.

The question of liquidity and price discovery for settlement purposes

The Bitcoin market is a relatively deep but fragmented market. Its most liquid cross pairs are the CNY (Chinese Yuan) in which several billion dollars of bitcoin notional trade everyday, followed by the JPY (Japanese Yen) with hundreds of millions and then the US dollar where at least tens of millions trade daily. The market is fragmented for a number of reasons, but largely due to differences across jurisdictions in banking and regulatory laws, cultural preferences or technological deficiencies (lack of access or education). This fragmentation is structural and will not readily disappear.

In the United States, there are at least three regulated exchanges where aggregate volumes range from USD 5mm to 15mm on any given day. Including exchanges that are based outside

of the United States, but are part of the US dollar to Bitcoin trading complex, the volumes rise by a multiple of 2 or 3. The usage of leverage in certain exchanges attracts further liquidity.

In terms of Gemini acting as the price settlement reference, we believe there is no visible conflict of interest since Gemini is acting as an agent and does not trade its own book. Gemini merely provides the technical infrastructure for physical spot traders to meet and trade. In regards the size of the auction result on any given day, we believe that as with all auctions, some may fail and a secondary pricing source should be used as a backup. For example, if the dollar valuation of the amounts exchanged during auction settlement does not meet a defined threshold (example USD 1,000,000) then a blend of the top 3 or 4 USD onshore exchanges can be used. We anticipate that the interest in the physical spot auction will grow significantly if the ETF is approved. Currently, the volumes are adequate in our view to formulate a settlement price, and will likely grow with time.

The question of whether the ETF will be able to source adequate amounts of Bitcoin is irrelevant to the viability of the ETF. Demand will vary as it always does on any asset and the NAV will fluctuate to premiums and discounts in amounts that will readily be arbitraged by the Authorized Participants. It is difficult to anticipate whether the influx of new demand via an ETF would bring additional volatility or price uncertainty to the underlying Bitcoin market. While some commenters believe that an increase in volatility is the outcome of new demand (certainly with many IPOs this is not uncommon in the near term, such as Facebook), we believe that the likely medium to long term outcome will be an improvement in price stability as institutional investors and professional market makers achieve greater access to the bitcoin market. As a general maxim of markets - increasing levels of participation lead to improvements in price discovery, liquidity and price stability; we see no reason why this would not hold for Bitcoin. And such improvements to price stability will benefit the existing Bitcoin and nascent blockchain ecosystems.

In conclusion, we believe that Bitcoin and digital currencies are here to stay and that the current market capitalization of Bitcoin and its much reduced volatility in the last year show that the market is maturing and ready to be offered to a wider range of investors that lack the technical or operational capabilities to invest in “physical” Bitcoin. It would be unfair to deprive millions of investors the ability to diversify into a new asset class, even if the ETF were to cause an incremental risk of volatility as the Bitcoin market adjusts to potential new capital inflows.

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