graniteshares
205 Hudson Street, 7th Floor
New York, NY 10013
info@graniteshares.com
graniteshares.com

August 20, 2018

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

Re: **File Number SR-CboeBZX-2018-001**

GraniteShares welcomes the opportunity to comment on File No. SR-CboeBZX-2018-001, that relates to the request from the Cboe BZX Exchange for a rule change in order to list and trade the shares of the two following exchange traded funds ("ETFs"): GraniteShares Bitcoin ETF and the GraniteShares Short Bitcoin ETF.[1] This comment letter provides detailed responses to the specific questions on which the Commission requested comment in in its "Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to List and Trade the Shares of the GraniteShares Bitcoin ETF and the GraniteShares Short Bitcoin ETF Under BZX Rule 14.11(f)(4), Trust Issued Receipts" (April 5, 2018). These responses are provided in Appendix A; GraniteShares also respectfully offers certain prefatory observations immediately below with respect to the important distinctions between the funds and other exchange traded funds that invest directly in bitcoin, as opposed to bitcoin futures contracts.

The Funds Will Invest in Bitcoin Futures Contracts

Neither fund will invest directly in bitcoin. Instead, the funds will invest in futures contracts that are listed on either the CBOE Futures Exchange ("CFE") or the Chicago Mercantile Exchange ("CME"). The funds' futures contract positions will be rolled over before maturity so that the funds will never be directly exposed to bitcoin.

GraniteShares respectfully notes that it waited for the introduction of the bitcoin futures market rather than developing an ETF based on bitcoin itself, for the specific reason that the operation of, and risks posed by, an ETF that seeks to track the performance of a bitcoin futures contract, are relatively straightforward and similar to the operation of and risks involved with many existing commodity futures-based ETFs.

The fact that the funds will invest in futures contracts instead of bitcoin, has four major benefits in regards to risk and operation of the funds:

- **Market manipulation:** GraniteShares appreciates the concerns raised by the Commission around market manipulation regarding bitcoin; however, the funds will not invest in bitcoin. The funds will invest in futures contracts only and GraniteShares is not aware of concerns raised by

[1] For convenience, this comment letter refers to the funds as" ETFs," although they are not and will not be registered or regulated under the Investment Company Act of 1940; for this reason, similar funds are sometimes referred to as "exchange traded products" or by similar names.

the Commission about the risk of market manipulation in the underlying commodity markets when it reviewed the application of existing commodity futures-based ETFs, even when such risk is disclosed in the offering document[2] or when the production of the underlying is dominated by a relatively few players operating under a common organization.[3]

In regards to the futures contracts in which the funds will invest, the CFE and CME have market surveillance groups in place that are responsible for protecting the economic functioning of exchange markets by ensuring the markets are free from manipulation or other circumstances that have the potential to distort prices or otherwise affect the orderly trading and expiration of exchange contracts.[4,5] Those groups are already responsible for the market surveillance of futures contracts used by existing futures-based commodity ETFs.[6]

- **Trading and liquidity:** Both futures contracts in which the funds will invest are listed on regulated exchanges that have specific and well-established trading and clearing rules (chapter 350 of the CME rulebook and Chapter 13 of the CFE Rulebook) to maintain an orderly and continuous market for these instruments. The trading activity is supported by multiple on-

[2] The Commission approved the request from the American Stock Exchange (AMEX) to list shares of the DB Commodity Index Tracking Fund (now named the Invesco DB Commodity Index Tracking Fund) (SR-Amex-2005-059), stating that "*The Commission believes that the wide availability of information about the underlying futures contracts, the Index and the Shares will facilitate transparency with respect to the proposed Shares and diminish the risk of manipulation or unfair informational advantage*." The Commission did not raise concerns about manipulation in the underlying commodity markets, even though the risk section of the prospectus indicates: "*The commodity futures markets may be subject to temporary distortions due to various factors, including lack of liquidity, congestion, disorderly closing periods, manipulation and disruptive conduct, limitations on deliverable supplies, the participation of speculators, government regulation and intervention, technical and operational or system failures, nuclear accidents, terrorism, riots and acts of God.*" Moreover, while the Commission noted that there were Information Sharing Agreements (ISAs) in place between the listing exchange (AMEX) and the underlying listing exchanges for the commodity futures contracts in which the DB Commodity Index Tracking Fund invests, there was no discussion or reference to surveillance agreements between AMEX and the exchanges or markets on which the underlying commodities are traded. GraniteShares acknowledges that the Commission has recently suggested that in certain circumstances it may be appropriate for an ETF listing exchange to demonstrate that it can share information with the "spot markets underlying bitcoin derivatives." However, the Commission noted that this would be necessary "when appropriate," without additional explanation of the circumstances in which such sharing would be appropriate. *See* "Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Order Setting Aside Action by Delegated Authority and Disapproving a Proposed Rule Change, as modified by Amendments No. 1 and 2, To List and Trade Shares of the Winklevoss Bitcoin Trust" (July 26, 2018). For the reasons discussed herein, GraniteShares does not believe that it is necessary for the protection of investors for the funds' listing exchange to enter into information sharing agreements with bitcoin exchanges, nor did the Commission explain whether similarly-situated ETFs have done so in prior circumstances.

[3] The Commission approved the request from the American Stock Exchange to list shares of United States Oil Fund, LP (SR-Amex-2005-127), stating that the "*Commission believes that the wide availability of information about the Units [sic] the Oil Futures Contracts held by the USOF and NAV will facilitate transparency with respect to the proposed Units and diminish the risk of manipulation or unfair informational advantage*" (p.35 of the Order). The Commission did not raise concerns about the underlying market even though decisions by OPEC members to modify production levels can have material impacts on crude oil prices, and the organization can adopt decisions that are not primarily economically driven. See Sanati Reza, "OPEC and the International System: A Political History of Decisions and Behavior" (2014).

[4] https://www.cmegroup.com/market-regulation/market-surveillance.html.

[5] http://www.cboe.com/aboutcboe/legal-regulatory/departmental-overviews/department-of-market-regulation.

[6] For instance, the Unites States Oil Fund, LP invests in WTI crude oil futures that are listed and traded on the CME.

screen market makers that have entered into either a liquidity provider program with the CME[7] or a "market turner fee" program with the CFE,[8] both models resulting in market participants providing a continuous two-sided market throughout the trading day.

GraniteShares recognizes that bitcoin futures contracts have limited operating histories. Nonetheless, the market infrastructure for bitcoin futures is at least as advanced as the one under which the freight futures contracts used by the Breakwave Dry Bulk Shipping ETF[9] operate. Although the freight futures contracts are centrally cleared, they trade by voice orders with no electronic central order book or any particular on-going obligations for market makers to continuously support liquidity in these contracts. GraniteShares also respectfully notes the daily volume in these contracts is not higher than the aggregate volume on bitcoin futures contracts.[10] For example, the average aggregate daily volume on bitcoin futures contracts from June 13, 2018 through August 13, 2018 was approximately $238 million. The daily volume of the freight futures as reported in the presentation listed in footnote 10 was $50 - $100 million.

- **Valuation:** The relevant clearing houses linked to the CFE and CME exchanges publish a daily settlement price for the futures contracts in which the funds will invest. These settlement prices result from observations of executable prices or actual trades.[11] These prices will be used to determine the daily margin calls as well as the reference value to determine the funds' daily NAV. Settlement prices are published by exchanges and are publicly available on their websites.[12]

  This approach is consistent with other existing commodity futures ETFs. It is well accepted by investors and market participants supporting the liquidity of such products.[13]

  Custody: Creation and redemption orders for baskets of the funds' shares will be settled on a cash basis. The cash received upon settlement of creation orders will principally be invested in short-term U.S. Treasury bills, which will be either custodied with the funds' custodian (BNY-Mellon) or deposited with the funds' futures brokers to meet the initial margin requirements resulting from the funds' futures contracts positions. In accordance with CFTC rules, the futures brokers must keep customer assets segregated. The way the funds' assets will be custodied is identical to the model used by current commodity-based ETFs. Investing in bitcoin futures contracts has no impact in that regard.

Overall, GraniteShares believes that the two funds that Cboe BZX Exchange is asking permission to list are identical in nature to other existing commodity futures-based ETFs. GraniteShares acknowledges that bitcoin futures contracts and bitcoin carry specific risks, just like other commodity futures contracts

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[7] See FAQ on CME website (https://www.cmegroup.com/education/bitcoin/cme-bitcoin-futures-frequently-asked-questions.html) as well as list of brokers and liquidity providers in CME bitcoin futures contracts (https://www.cmegroup.com/trading/bitcoin-brokers-and-block-liquidity-providers.html).

[8] Cboe Futures Exchange, LLC Rule Certification Submission Number CFE-2018-012.

[9] In its Order dated December 22, 2017, the Commission approved the proposed rule change submitted by NYSE Arca to list the Breakwave Dry Bulk Shipping ETF.

[10] *See*, in particular, page 3 of the following presentation: http://www.drybulketf.com/assets/ETFMG-BDRY-ETF-Investment-Strategy.pdf.

[11] In the case of bitcoin futures traded on the CFE, the daily settlement price is based on the average of the last bid and last offer. In the case of the bitcoin futures traded on the CME, the settlement price is based on a volume-weighted average price of CME Globex trades.

[12] http://cfe.cboe.com/cfe-products/xbt-cboe-bitcoin-futures, https://www.cmegroup.com/trading/equity-index/us-index/bitcoin.html.

[13] GraniteShares is not aware of a commodity futures-based ETF using a different valuation method.

and commodity markets do. These specific risks have been disclosed in the registration statement submitted to the Commission.[14]

In the event the Commission were to reject the Cboe BZX Exchange's request to list the funds, GraniteShares believes it would be useful for the industry if the Commission could explain the basis under which ETFS can invest in some futures contracts but not others.

GraniteShares thanks the SEC for the opportunity to comment on these matters and is happy to discuss them further with the Commission, its staff or other interested parties. Any questions can be directed directly to myself or to Tom Conner at Vedder Price (212.417.7715), our outside counsel.

Sincerely,

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William Rhind, CEO

[14] The latest S1/A was submitted on March 8, 2018. Registration No. 333-222109.

Appendix A

Please note, certain terms used below have the same meaning as in the prospectus in the revised registration statement filed on March 8, 2019.)

1- In its proposal, the Exchange states that each Fund, in the event that position, price, or accountability limits are reached with respect to Bitcoin Futures Contracts, may also invest in Listed Bitcoin Swaps. What are commenters' views on the current availability of Listed Bitcoin Swaps for trading? What are commenters' views on the ability of the Funds to invest in Listed Bitcoin Swaps in the event that position, price, or accountability limits are reached with respect to Bitcoin Futures Contracts?

In a revised registration statement on Form S-1/A filed on March 8, 2018, it is proposed for the Funds to take positions in Bitcoin Futures Contracts only. The Funds will not invest in Listed Swaps or in any other instruments other than Bitcoin Futures Contracts. The Exchange will amend and file an updated 19b-4 rule change request accordingly on August 20, 2018.

2- In its proposal, the Exchange states that each Fund, in the event that position, price, or accountability limits are reached with respect to Listed Bitcoin Swaps, may also invest in OTC Bitcoin Swaps. What are commenters' views on the current availability of OTC Bitcoin Swaps for trading? What are commenters' views on the ability of the Funds to invest in OTC Bitcoin Swaps in the event that position, price, or accountability limits are reached with respect to Listed Bitcoin Swaps?

In a revised registration statement on S-1/A filed on March 8, 2018, it is proposed for the Funds to take positions in Bitcoin Futures Contracts only. The Funds will not invest in Listed Swaps or in any other derivative instruments other than Bitcoin Futures Contracts. The Exchange will amend and file an updated 19b-4 rule change request accordingly on August 20, 2018.

3- What are commenters' views on whether the Funds would have the information necessary to adequately value, including fair value, the Bitcoin Futures Contracts and the Bitcoin Swaps when determining an appropriate end-of-day NAV for the Funds, taking into account any volatility, fragmentation, or general lack of regulation of the underlying bitcoin markets?

The Funds will invest in Bitcoin Futures Contracts only and will roll the positions before they mature. The Funds will not take positions in spot bitcoin.

For NAV purposes, the Funds' assets will be composed of the futures contracts only (together with its investments in short-term Treasury bills). The revised registration statement on S-1/A states that the futures contracts held by the Fund will be valued against the daily settlement price published by the relevant futures exchange. Procedures to determine the daily settlement prices have been established by the Cboe Futures Exchange (CFE) and Chicago Mercantile Exchange (CME), with both venues having extensive experience in maintaining orderly markets in listed futures contracts.

In case of a market disruption event, the sponsor of the Trust (GraniteShares Advisors LLC) will implement rules and standard valuation procedures consistent with normal industry standards by working with the Trust's administrator, the Bank of New York Mellon, and the concurrence of the Trust's outside auditors. The Trust's sponsor has experience in this area through the management of 2 ETFs that invest in commodity futures: the GraniteShares Bloomberg Broad Strategy no K-1 ETF and the GraniteShares S&P GSCI Commodity Broad Strategy no-K1 ETF.

This approach is also consistent with other ETFs investing in listed futures contracts.

4- What are commenters' views on the potential impact of manipulation in the underlying bitcoin markets on the Funds' NAV? What are commenters' views on the potential effect of such manipulation on the valuation of a Fund's Bitcoin Futures Contracts? What are commenters' views on the potential effect of such manipulation on the pricing of a Fund's Bitcoin Swaps?

The Funds will invest in Bitcoin Futures Contracts only, and, as such, the Shares of the Funds will track the price of the futures contracts. To the extent price manipulation is possible in the underlying market and affects the price of the futures contracts, the NAV would be impacted as well.

This is identical to the operation of and risks involved with other existing commodity futures-based ETFs, whereby price manipulation might affect the physical market to which the futures contracts provide exposure to (for example, because of the existence of only a few major producers or users in a particular commodity), which by extension would affect the price of the associated commodity futures.

GraniteShares notes that the futures contracts the funds will invest in are listed on the CFE and the CME and these trading venues have developed rules, systems and market surveillance teams that have been used for many years to monitor the risk of market manipulation. Existing commodity futures-based ETFs invest in futures contracts listed on these trading venues.

5- What are commenters' views on how the Funds' valuation policies would address the potential for the bitcoin blockchain to diverge into different paths (i.e., a "fork")?

The Funds invest in futures contracts only, not in actual cryptocurrencies. The valuation of these futures contracts for NAV purposes will be based on the settlement price determined by the relevant clearing house and publicly published by the exchange.

A fork will not modify that valuation policy.

6- What are commenters' views on the price differentials and trading volumes across bitcoin trading platforms (including during periods of market stress) and on the extent to which these differing prices may affect the trading of the Bitcoin Futures Contracts and, accordingly, trading in the Shares of the Funds?

Appendix B below analyzes price differentials across bitcoin trading venues representing approximately 99.5% of the bitcoin volume traded on bitcoin platforms in USD (BTC/USD), as reported by www.data.bitcoinity.org and www.coinmarketcap.com. Appendix B shows that the prices across these different venues are very similar and there is no discernable difference.

These results are in line with expectations, since bitcoin tokens are fungible and can be transferred from one venue to another, hence facilitating the arbitrage mechanism across platforms. It is similar to deliverable currencies (such as US dollar, euro, British pound, Japanese yen…) where trading takes place across multiple trading venues around the globe. The ability to arbitrage across platforms makes it unlikely for the price of a currency to differ materially from one platform to another.

In this sense arbitrage mechanisms on assets such as bitcoin might be easier to implement than on some commodities, where multiple delivery days, locations and grades mean that the arbitrage costs in commodity markets is sometimes not zero.[15]

GraniteShares does not believe that this this process will weaken over time and, on that basis, it does not foresee the presence of multiple trading venues for bitcoin as having a negative impact on trading in Bitcoin Futures Contracts and by extension trading in the Shares of the Funds.

7- What are commenters' views on how the substantial margin requirements for Bitcoin Futures Contracts, and the nature of liquidity and volatility in the market for Bitcoin Futures Contracts, might affect the Trust's ability to meet redemption orders? What are commenters' views on whether and how the margin requirements for Bitcoin Futures Contracts, and the nature of liquidity and volatility in the market for Bitcoin Futures Contracts, might affect a Fund's use of available cash to achieve its investment strategy?

GraniteShares does not believe that the level of margin will impact the ability of the Funds to meet redemption orders, even in the case where the clearing house would require the Funds to post 100% margin (current requirement is 44%). Creation and redemption orders will settle on a T+1 basis (*i.e.*, the following business day after which a creation basket order is received), which also matches the settlement cycle for margin purposes with the clearing house. In case of a redemption order received on day T+0, the Funds' futures contract position will be adjusted accordingly on day T+0, and the clearing house will return the margin to the Funds on day T+1. The proceeds will then be used to settle on day T+1 the redemption order received on day T+0.

8- What are commenters' views on the possibility that the Funds—along with other exchange-traded products with similar investment objectives—could acquire a substantial portion of the market for Bitcoin Futures Contracts or the Bitcoin Swaps? What are commenters' views on whether such a concentration of holdings could affect the Funds' portfolio management, the liquidity of the Funds' respective portfolios, or the pricing of the Bitcoin Futures Contracts or the Bitcoin Swaps? What are commenters' views on the Exchange's representation that it expects significant liquidity to exist in the market for Bitcoin Futures Contracts?

Similarly to other listed futures contracts, there are position limits associated with the Bitcoin Futures Contracts in which the Funds will invest. If the Funds were to hit these limits that would potentially impact the trading and liquidity in the shares of the Funds.

This risk is disclosed in the registration statement and other existing commodity futures-based ETFs face similar risks, which are also disclosed in their registration statements. GraniteShares notes that any potential interest from investors in the shares of the Funds would eventually result in additional liquidity and activity in the Bitcoin Futures Contracts in which the Funds will invest and further support the development of the market.

9- What are commenters' views on possible factors that might impair the ability of the arbitrage mechanism to keep the trading price of the Shares tied to the NAV of each Fund? With respect to the market for Bitcoin Futures Contracts, what are commenters' views on the potential impact on the arbitrage mechanism of the price volatility and the potential for trading halts? What are commenters' views on whether or how these potential impairments of the arbitrage mechanism may affect the

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[15] *See, e.g.,* Irwin and Smith "Futures Market Failure," published in January 2015 in the American Journal of Agricultural Economics.

Funds' ability to ensure adequate participation by Authorized Participants? What are commenters' views on the potential effects on investors if the arbitrage mechanism is impaired?

The Funds will invest in Bitcoin Futures Contracts, and the arbitrage mechanisms to maintain the price of the Shares in line with the NAV are subject to the ability of market participants to be able to access liquidity in these futures contracts. Such contracts are subject to market disruption events, for instance, daily position limit moves. If such an event did occur, it will likely impact the trading and the liquidity in the Shares of the Funds. This risk is disclosed in the prospectus in the registration statement. Other existing commodity futures-based ETFs are exposed to similar risks that are also disclosed in their registration statements.

10- What are commenters' views on the risks of price manipulation and fraud in the underlying bitcoin trading platforms and how these risks might affect the Bitcoin Futures Contracts market or the Bitcoin Swaps? What are commenters' views on how these risks might affect trading in the Shares of the Funds?

The Funds will invest in Bitcoin Futures Contracts only, and, as such, the Shares of the Funds will track the price of these futures contracts. To the extent price manipulation is possible in the underlying market and affects the futures contracts, the NAV would be impacted as well.

This effect is similar to the operation of and risks involved with other existing commodity futures-based ETFs, whereby price manipulation might affect the physical market of a commodity to which the futures contracts provide exposure (for example, because of the presence of only few major producers or users in a particular commodity), which by extension would affect the price of the associated commodity futures. GraniteShares notes that the CFE and the CME have developed rules, systems and market surveillance groups that have been in place for many years and have been monitoring the trading in futures contracts used by some existing commodity futures-based ETFs.

11- What are commenters' views on how an investor may evaluate the price of the Shares in light of the risk of potential price manipulation and fraud in the underlying bitcoin trading platforms and in light of the potentially significant spread between the price of the Bitcoin Futures Contracts or the Bitcoin Swaps and the spot price of bitcoin?

Shares of the Funds will track Bitcoin Futures Contracts only and not actual bitcoin. As disclosed in the registration statement, when evaluating the price of the Shares, the tracking of the price of the Shares with the Funds' benchmark -- the performance of the corresponding Bitcoin Futures Contract -- and the desirability of investing in the Shares, investors should only consider the level of the Bitcoin Futures Contracts, not the price of bitcoin.

12- What are commenters' views on whether the two bitcoin futures exchanges represent a significant market, i.e., a market of significant size?

GraniteShares believes the CFE and CME represent a significant market based on the existing market as well as the trading infrastructure.

Both futures contracts are listed on regulated exchanges that have specific and well-established trading and clearing rules (chapter 350 of the CME rulebook and Chapter 13 of the CFE Rulebook) to maintain an orderly and continuous market for these instruments. The commenter's conclusions rely primarily on the following:

- The trading activity is supported by multiple on-screen market makers that have entered into either a liquidity provider program with the CME[16] or a “market turner fee” program with the CFE,[17] both models resulting in market participants providing a continuous two-sided market throughout the trading day.
- A margin call against the settlement price is performed daily, for both futures contracts, by the clearing house. The settlement prices result from observations of executable prices or actual trades.[18]

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[16] See FAQ on CME website (https://www.cmegroup.com/education/bitcoin/cme-bitcoin-futures-frequently-asked-questions.html) as well as list of brokers and liquidity providers in CME bitcoin futures contracts (https://www.cmegroup.com/trading/bitcoin-brokers-and-block-liquidity-providers.html)

[17] Cboe Futures Exchange, LLC Rule Certification Submission Number CFE-2018-012

[18] In the case of bitcoin futures traded on the CFE, the daily settlement price is based on the average of the last bid and last offer. In the case of the bitcoin futures traded on the CME, the settlement price is based on a volume-weighted average price of CME Globex trades.

Appendix B

The table below compares the volume of bitcoin traded on 9 different bitcoin exchanges (Bit-x/Leno, Bitfinex, Cex.io, Coinbase/GDAX, Exmo, Gemini, Hitbtc, Itbit, Kraken and BitStamp), which represents approximately 99.5% of the bitcoin volume traded on bitcoin platforms in USD (BTC/USD) as reported by www.data.bitcoinity.org and www.coinmarketcap.com.

The table shows that the traded prices across these different exchanges are very similar. There is also no discernable difference in performance across these exchanges, with the average correlation of the returns above 0.98, with a minimum correlation level of 0.96. This very high level of correlation suggests that trading on one particular exchange should not yield superior performance.

Correlation of daily price return between bitcoin exchanges

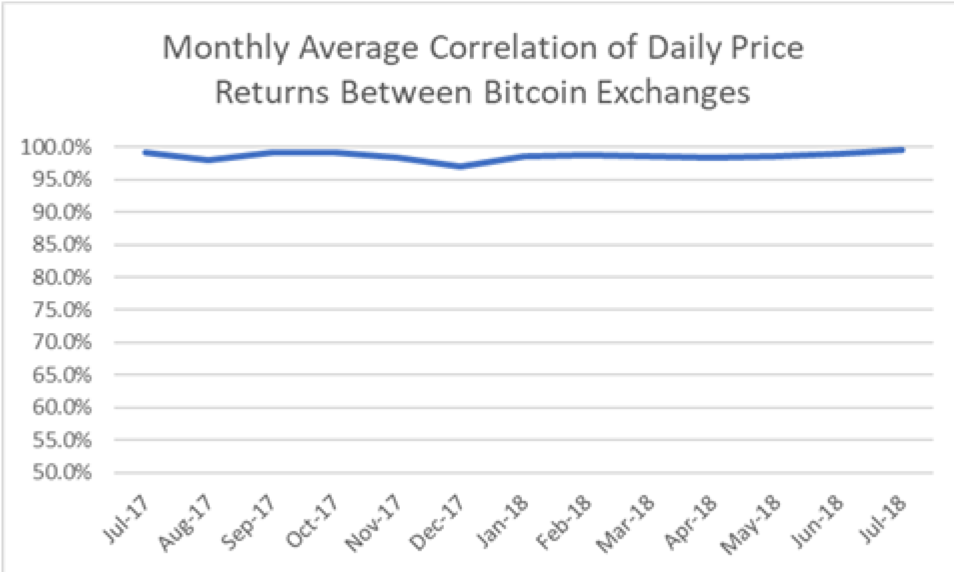
Period considered: July 12, 2017 to August 13, 2018

Lowest correlation	0.964
Average correlation	0.985

	bit-x	bitfinex	cex.io	coinbase	exmo	gemini	hitbtc	itbit	kraken	Bitstamp
bit-x		0.985	0.978	0.987	0.964	0.987	0.984	0.990	0.987	0.990
bitfinex			0.974	0.987	0.964	0.991	0.995	0.993	0.992	0.996
cex.io				0.983	0.979	0.980	0.972	0.981	0.982	0.982
coinbase					0.970	0.996	0.982	0.996	0.993	0.994
exmo						0.966	0.965	0.968	0.970	0.969
gemini							0.987	0.998	0.994	0.996
hitbtc								0.989	0.989	0.992
itbit									0.995	0.998
kraken										0.996
Bitstamp										

source: GraniteShares, data.bitcoin.org, coinmarketcap.com

The chart below shows the monthly average of the correlation of daily price returns between the bitcoin exchanges listed in the table above. The chart shows this correlation has been both stable and high for each month in the period considered. The monthly average correlation has ranged from a low of 97.0% (Dec 2017 – Jan 2018 period) to high of 99.6% (Jul 2018 – Aug 2018 period) with an average value of 98.6% In addition, the chart indicates the monthly average correlation has been trending higher, toward 100%.



Source: GraniteShares, data.bitcoin.org, coinmarketcap.com