

September 20, 2018

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to List and Trade Shares of SolidX Bitcoin Shares Issued by the VanEck SolidX Bitcoin Trust Under BZX Rule 14.11(e)(4), Commodity-Based Trust Shares

On June 20, 2018, Cboe BZX Exchange, Inc. (“BZX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to list and trade shares of SolidX Bitcoin Shares (“Shares”) issued by the VanEck SolidX Bitcoin Trust (“Trust”) under BZX Rule 14.11(e)(4), Commodity-Based Trust Shares. The proposed rule change was published for comment in the Federal Register on July 2, 2018.³

On August 7, 2018, pursuant to Section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.⁵ As of September 19, 2018, the Commission has received more than 1,400 comment letters on the

¹ 15 U.S.C. 78s(b)(1). ² 17 CFR 240.19b-4. ³ See Securities Exchange Act Release No. 83520 (June 26, 2018), 83 FR 31014 (July 2, 2018) (“Notice”). ⁴ 15 U.S.C. 78s(b)(2). ⁵ See Securities Exchange Act Release No. 83792 (Aug. 7, 2018), 83 FR 40112 (Aug. 13, 2018). The Commission designated September 30, 2018, as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change.

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proposed rule change.⁶ This order institutes proceedings under Section 19(b)(2)(B) of the Act⁷ to determine whether to approve or disapprove the proposed rule change.

I. Summary of the Proposal⁸

The Exchange proposes to list and trade the Shares under BZX Rule 14.11(e)(4), which governs the listing and trading of Commodity-Based Trust Shares on the Exchange.⁹ Each Share will represent a fractional undivided beneficial interest in the Trust’s net assets. SolidX Management LLC will be the sponsor of the Trust (“Sponsor”). The Trust will be responsible for custody of the Trust’s bitcoin. The Bank of New York Mellon will be the Administrator, transfer agent, and the custodian, with respect to cash, of the Trust. Foreside Fund Services, LLC will be

the marketing agent in connection with the creation and redemption of baskets of Shares. Van Eck Securities Corporation will provide assistance in the marketing of the Shares.¹⁰

⁶ All comments on the proposed rule change are available on the Commission's website at <https://www.sec.gov/comments/sr-cboebzx-2018-040/cboebzx2018040.htm>.
⁷ 15 U.S.C. 78s(b)(2)(B). ⁸ The Commission notes that additional information regarding the Trust and the Shares, including investment strategies, calculation of net asset value ("NAV") and intra-day indicative value ("IIV"), creation and redemption procedures, and additional background information about bitcoins and the Bitcoin network, among other things, can be found in the Notice (see *supra* note 3) and the registration statement filed with the Commission on Form S-1 (File No. 333-212479) under the Securities Act of 1933 ("Registration Statement"), as applicable. ⁹ See BZX Rule 14.11(e)(4) (permitting the listing and trading of "Commodity-Based Trust Shares," defined as a security (a) that is used by a trust which holds a specified commodity deposited with the trust; (b) that is issued by such trust in a specified aggregate minimum number in return for a deposit of a quantity of the underlying commodity; and (c) that, when aggregated in the same specified minimum number, may be redeemed at a holder's request by such trust which will deliver to the redeeming holder the quantity of the underlying commodity). ¹⁰ See Notice, *supra* note 3, at 31015.

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According to the Exchange, the investment objective of the Trust is for the Shares to reflect the performance of the price of bitcoin, less the expenses of the Trust's operations. The Trust is not actively managed and will not engage in activities designed to obtain a profit from, or to ameliorate losses caused by, changes in the price of bitcoin.¹¹ The Administrator will generally use the closing price set for bitcoin by the MVIS Bitcoin OTC Index ("MVBTCO") to calculate the Fund's NAV on each business day that the Exchange is open for regular trading, as promptly as practicable after 4:00 p.m. E.T.¹²

According to the Exchange, the MVBTCO represents the value of one bitcoin in U.S. dollars at any point in time. The Exchange represents that the MVBTCO calculates the intra-day price of bitcoin every 15 seconds and a closing price as of 4:00 p.m. E.T., each weekday and that the intra-day levels of the MVBTCO incorporate the real-time price of bitcoin based on executable bids and asks derived from constituent bitcoin over-the-counter ("OTC") platforms that have entered into an agreement with MV Index Solutions GmbH ("MVIS") to provide such information. According to the Exchange, the intra-day price and closing level of the MVBTCO is calculated using a proprietary methodology collecting executable bid/ask spreads and calculating a mid-point price from several U.S.-based bitcoin OTC platforms. The Exchange represents that

11 See id. at 31015. 12 See id. at 31020. In the event that the Sponsor determines that this valuation method has failed, the Sponsor will determine the bitcoin market price on the valuation date according to a set of alternative methods to be used in the following order: (a) the mid-point price of the bid/ask spread as of 4:00 p.m. E.T. obtained by the Sponsor from any bitcoin OTC platform that is part of the MVBTCO index; (b) the volume-weighted average price over the 24-hour period ending at 4:00 p.m. E.T. as published by a public data feed that is calculated based upon a volume-weighted average bitcoin price obtained from the major U.S. dollar-denominated bitcoin exchanges and that the Sponsor determines is reasonably reliable; and (c) the Sponsor's best judgment of a good faith estimate of the bitcoin market price. Greater detail concerning the alternative pricing procedures if the MVBTCO cannot be utilized as the basis for NAV calculations can be found in the Notice. See id. at 31019–20.

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bitcoin OTC platforms included in the MVBTCO are U.S.-based entities that are well established institutions and include entities that are regulated by the Commission and the Financial Industry Regulatory Authority ("FINRA") as registered broker-dealers and affiliates of broker-dealers. According to the Exchange, the logic utilized for the derivation of the intra-day and daily closing index level for the MVBTCO is intended to analyze actual executable bid/ask spread data, verify and refine the data set, and yield an objective, fair-market value of one bitcoin priced in U.S. dollars.¹³ The Trust's website will provide an IIV per Share updated every 15 seconds, as calculated by the Exchange or a third party financial data provider during the Exchange's Regular Trading Hours (9:30 a.m. to 4:00 p.m. E.T.).¹⁴

The Exchange states that the Trust intends to achieve its investment objective by investing substantially all of its assets in bitcoin traded primarily in the OTC markets, but that the Trust may also invest in bitcoin traded on domestic and international bitcoin exchanges, depending on liquidity and other factors at the Trust's discretion.¹⁵ According to the Exchange, while the Trust expects to conduct its trading primarily on the OTC platforms that comprise the MVBTCO, the Trust also maintains an internal proprietary database, which it does not share with anyone, of potential OTC bitcoin trading counterparties, including hedge funds, family offices, private wealth managers, and high-net-worth individuals. The Exchange represents that all such potential counterparties will be subject to the Trust's anti-money laundering ("AML") and know your customer ("KYC") compliance procedures. According to the Exchange, the Trust will begin trading with such potential OTC counterparties as their trading capabilities become viable; the

13 See id. at 31017–18. 14 See id. at 31023. 15 See id. at 31015.

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Trust will also add additional potential counterparties to its internal proprietary database as it becomes aware of additional market participants; and the Trust will decide which OTC counterparties it will trade with based on its ability to fill orders at the best available price among OTC market participants.¹⁶ The Exchange represents that the Trust will provide information regarding the Trust’s bitcoin holdings as well as additional data regarding the Trust. According to the Exchange, investors and market participants will be able throughout the trading day to compare the market price of the Shares to the Shares’ IIV.¹⁷

According to the Exchange, the Trust will issue and redeem “Baskets,” each equal to a block of 5 Shares.¹⁸ The creation and redemption of a Basket will require the delivery to the Trust, or distribution by the Trust, of the number of whole and fractional bitcoins or the U.S. dollar equivalent represented by each Basket being created or redeemed. Only “Authorized Participants” may place orders to create and redeem Baskets.¹⁹ According to the Exchange, the Trust will not normally hold cash or any other assets, but may hold a very limited amount of cash in connection with the creation and redemption of Baskets and to pay the Trust’s expenses.²⁰ The Exchange represents that, in addition to its security system, the Trust will maintain comprehensive insurance coverage underwritten by various insurance carriers. The purpose of the insurance is to protect investors against loss or theft of the Trust’s bitcoin. The Exchange represents that the insurance will cover loss of bitcoin by, among other things, theft, destruction,

¹⁶ See id. at 31017. ¹⁷ See id. at 31021. ¹⁸ See id. According to the Exchange, as of the date of the Registration Statement, each Share represents approximately 25 bitcoins. See id. ¹⁹ See id. ²⁰ See id. at 31015.

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bitcoin in transit, computer fraud, and other loss of the private keys that are necessary to access the bitcoin held by the Trust, subject to certain terms, conditions, and exclusions that are discussed in the Registration Statement. According to the Exchange, the insurance policy will carry initial limits of \$25 million in primary coverage and \$100 million in excess coverage, with the ability to increase coverage depending on the value of the bitcoin held by the Trust.

According to the Exchange, to the extent the value of the Trust's bitcoin holdings exceeds the total \$125,000,000 of insurance coverage, the Sponsor has made arrangements for additional insurance coverage with the goal of maintaining insurance coverage at a one-to-one ratio with the Trust's bitcoin holdings valued in U.S. dollars, such that for every dollar of bitcoin held by the Trust there is an equal amount of insurance coverage.²¹

According to the Exchange, the Trust currently expects that there will be at least 100 Shares outstanding at the time of commencement of trading on the Exchange, which the Exchange asserts to be sufficient to provide adequate market liquidity. The Exchange states that BZX Rules 14.11(e)(4)(E)(ii)(b) and (c) provide that the Exchange will commence delisting proceedings for a series of Commodity-Based Trust Shares where the applicable trust has fewer than 50,000 receipts or the market value of all receipts issued and outstanding is less than \$1,000,000, respectively, following the initial 12 month period following commencement of trading on the Exchange. The Exchange is proposing that BZX Rule 14.11(e)(4)(E)(ii)(b) would not apply to the Shares because the Exchange believes that such policy concerns are otherwise mitigated. According to the Exchange, the lower number of Shares is merely a function of price that will have no impact on the creation and redemption process and the arbitrage mechanism,

²¹ See id. at 31019.

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and the Exchange proposes that it would not commence delisting proceedings for the Shares if the Shares do not satisfy BZX Rule 14.11(e)(4)(E)(ii)(b).²²

According to the Exchange, the Sponsor expects that the dissemination of information on the Trust's website, along with quotations for and last-sale prices of transactions in the Shares and the IIV and NAV of the Trust, will help to reduce the ability of market participants to manipulate the bitcoin market or the price of the Shares, and that the Trust's arbitrage mechanism will facilitate the correction of price discrepancies between bitcoin and the Shares. The Exchange states that the Sponsor believes that demand from new, larger investors accessing bitcoin through investment in the Shares will broaden the investor base in bitcoin, which could further reduce the possibility of collusion among market participants to manipulate the bitcoin market, and that the Sponsor expects that the Shares will be purchased primarily by institutional

and other substantial investors (such as hedge funds, family offices, private wealth managers, and high-net-worth individuals), which will provide additional liquidity and transparency to the bitcoin market in a regulated vehicle such as the Trust.²³

The Exchange also asserts that the policy concerns related to an underlying reference asset and its susceptibility to manipulation are mitigated as it relates to bitcoin because the very nature of the bitcoin ecosystem makes manipulation of bitcoin difficult. The Exchange argues that, particularly, in the OTC markets, the dual elements of principal-to-principal trading combined with the large size at which trades are effected should effectively eliminate the ability of market participants to manipulate the market with small trades as may be the case on any individual exchange. The Exchange further asserts that the OTC desks that comprise the

22 See id. at 31024. 23 See id. at 31018.

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MVBTCO with which the Trust intends to effect transactions are well established institutions that comply with AML and KYC regulatory requirements with respect to trading counterparties and include entities that are regulated by the Commission and FINRA as registered broker dealers and affiliates of broker-dealers. According to the Exchange, it is the Sponsor's position that the OTC desks have a better measure of the market than any exchange-specific reference price, whether individually or indexed across multiple exchanges.²⁴

The Exchange argues that the geographically diverse and continuous nature of bitcoin trading makes it difficult and prohibitively costly to manipulate the price of bitcoin and that, in many instances, the bitcoin market is generally less susceptible to manipulation than the equity, fixed income, and commodity-futures markets. The Exchange submits a number of arguments for why this is the case, asserting that there is no inside information about revenue, earnings, corporate activities, or sources of supply; that it is generally not possible to disseminate false or misleading information about bitcoin in order to manipulate; that manipulation of the price on any single venue would require manipulation of the global bitcoin price in order to be effective; that a substantial OTC market provides liquidity and shock-absorbing capacity; that bitcoin's 24/7/365 nature provides constant arbitrage opportunities across all trading venues; and that it is unlikely that any one actor could obtain a dominant market share.²⁵

Further, the Exchange asserts that bitcoin is arguably less susceptible to manipulation than other commodities that underlie exchange-traded products (“ETPs”) because there may be inside information relating to the supply of the physical commodity (such as the discovery of new sources of supply or significant disruptions at mining facilities that supply the commodity)

24 See id. at 31025. 25 See id.

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that simply are inapplicable to bitcoin. Further, the Exchange asserts that the fragmentation across bitcoin platforms, the relatively slow speed of transactions, and the capital necessary to maintain a significant presence on each trading platform make manipulation of bitcoin prices through continuous trading activity unlikely. Moreover, according to the Exchange, the linkage between the bitcoin markets and the presence of arbitrageurs in those markets means that the manipulation of the price of bitcoin on any single venue would require manipulation of the global bitcoin price in order to be effective. The Exchange argues that arbitrageurs must have funds distributed across multiple trading platforms in order to take advantage of temporary price dislocations, thereby making it unlikely that there will be strong concentration of funds on any particular bitcoin exchange or OTC platform. As a result, asserts the Exchange, the potential for manipulation on a trading platform would require overcoming the liquidity supply of such arbitrageurs who are effectively eliminating any cross-market pricing differences.²⁶

The Exchange asserts that its surveillance procedures are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. According to the Exchange, trading of the Shares through the Exchange will be subject to the Exchange’s surveillance procedures for derivative products, including Commodity-Based Trust Shares. The Exchange further represents that, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will surveil for compliance with the continued listing requirements and that, if the Trust or the Shares are not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under BZX Rule 14.12.27

26 See id. 27 See id. at 31024–25.

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The Exchange represents that it may obtain information regarding trading in the Shares and listed bitcoin derivatives via the Intermarket Surveillance Group (“ISG”), from other exchanges who are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, the Exchange represents that it may obtain information about bitcoin transactions, trades, and market data from bitcoin exchanges with which the Exchange has entered into a comprehensive surveillance sharing agreement as well as certain additional information that is publicly available through the Bitcoin blockchain. The Exchange notes that it has entered into a comprehensive surveillance sharing agreement with the Gemini Exchange.²⁸

II. Proceedings to Determine Whether to Approve or Disapprove SR-CboeBZX-2018-040 and Grounds for Disapproval Under Consideration The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Act²⁹ to

determine whether the proposed rule change should be approved or disapproved. Institution of such proceedings is appropriate at this time in view of the legal and policy issues raised by the proposed rule change. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, as described below, the Commission seeks and encourages interested persons to provide comments on the proposed rule change.

Pursuant to Section 19(b)(2)(B) of the Act,³⁰ the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of the proposed rule change’s consistency with Section 6(b)(5) of the Act,

28 See *id.* at 31025. 29 15 U.S.C. 78s(b)(2)(B). 30 *Id.*

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which requires, among other things, that the rules of a national securities exchange be “designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade,” and “to protect investors and the public interest.”³¹

The Commission asks that commenters address the sufficiency of the Exchange’s statements in support of the proposal, which are set forth in the Notice,³² in addition to any other comments they may wish to submit about the proposed rule change. In particular, the

Commission seeks comment on the following:

1. What are commenters' views of the Exchange's assertions that bitcoin is arguably less susceptible to manipulation than other commodities that underlie ETPs; that the geographically diverse and continuous nature of bitcoin trading makes it difficult and prohibitively costly to manipulate the price of bitcoin; that trading on inside information regarding bitcoin is unlikely; that the fragmentation across bitcoin markets, the relatively slow speed of transactions, and the capital necessary to maintain a significant presence on each trading platform make manipulation of bitcoin prices through continuous trading activity unlikely; that manipulation of the price on any single venue would require manipulation of the global bitcoin price to be effective; that a substantial OTC bitcoin market provides liquidity and shock absorbing capacity; that bitcoin's "24/7/365 nature" provides constant arbitrage opportunities across all trading venues; and that it is unlikely that any one actor could obtain a dominant market share?

I believe that being a worldly traded commodity would increase the amount of investors viewing the bitcoin price and trading bitcoin, and therefore increasing liquidity. To give a very rough idea of an impact of the world of countries being legally and easily accessible to trade bitcoin as oppose to only the USA, I compared the USA's 2018 income wealth as a percentage of the world income by using gross domestic product (which I noted from this website <http://statisticstimes.com/economy/countries-by-projected-gdp.php>). If the same ratio of US dollar was trading bitcoin from the USA as the rest of the world excluding countries which have banned bitcoin: Bangladesh, Bolivia, China, Ecuador, Iceland, India, Russia, Sweden, Thailand, and Vietnam (which I noted from this website <https://www.ccn.com/top-10-countries-bitcoin-banned/>) and subtracting the world gross domestic product \$87,505 from countries that have currently banned bitcoin: China \$14,093, India \$2,848, Russia \$1,720, Sweden \$601, Thailand \$484, Bangladesh \$286, Vietnam \$241, Ecuador \$107, Bolivia \$41 and Iceland \$29 (numbers are rounded to the nearest billion dollars) is \$67,055 and then divide USA \$20,413 by 67,055 is 0.304. So I would give a rough ball park estimate that the amount of total dollar volume coming from the U.S is around 30 percent compared to the world. Also, I believe that increasing the amount of trading would also increase investors placing buy limit order bids and sell limit order asks which could help counterbalance the manipulation of the bitcoin market. I also think that the cryptocurrency market encourages investors who can't afford or do not wish to invest much in any coins because it measures the trading fee as a very small percent of the trade amount. It also encourages trading coins of companies that are foreign to the investor. I agree that there isn't really insider trading involved since bitcoin is not really a company, object or person that produces income directly. Yes, I could agree that it does provide constant arbitrage

opportunities since prices do vary on different exchanges, but generally most of the popular exchange trading platforms are not too far off from the bitcoin spot price. I agree that the speed of transaction from one exchange to another does take time sometimes about an hour for bitcoin. Slow enough time that the sell order prices could be considerably different on the exchange you want to sell bitcoin by the time you received the deposited bitcoin if you transferred bitcoin from one exchange to another. Also bitcoin currently has a small fee for every withdraw transaction on exchange trading platforms. There are some multi billionaires in this world and it is possible that an actor could obtain a dominant market share but I do not think it will likely happen especially if it has not already happened back when the price of bitcoin was much cheaper.

2. What are commenters' views on the Sponsor's assertion, described by the Exchange in the Notice, that "the OTC desks have a better measure of the market than any exchange-specific reference price, whether individually or indexed across multiple exchanges"? What are commenters' views on the Exchange's representation that, in the OTC markets, the dual elements of principal-to-principal trading combined with the large size at which trades are effected should effectively eliminate the ability of market participants to manipulate the market with small trades as may be the case on any individual exchange? What is the current typical number and volume of transactions on the OTC market? What are commenters' views on whether the liquidity of the OTC bitcoin market, which would be used as the reference market for pricing the proposed ETP's holdings, is sufficient for efficient bitcoin price discovery? What are commenters' views on whether the liquidity of the OTC bitcoin market is sufficient to support efficient arbitrage between the price of the Shares and the spot price of bitcoin? What are the numbers of active traders, market makers, and other liquidity providers on the OTC bitcoin market? To what extent is trading in the OTC bitcoin market subject to regulation?

I don't feel that I have enough knowledge in regards to the OTC bitcoin market to comment on any of these questions.

3. The Exchange asserts that the dissemination of information on the Trust's website, along with quotations for and last-sale prices of transactions in the Shares and the IIV and NAV of the Trust, will help to reduce the ability of market participants to manipulate the bitcoin market or the price of the Shares and that the Trust's arbitrage mechanism will facilitate the correction of price discrepancies in bitcoin and the Shares. In addition, the Exchange asserts that demand from new, larger investors accessing bitcoin through investment in the Shares will

broaden the investor base in bitcoin, which could further reduce the possibility of collusion among market participants to manipulate the bitcoin market. The Exchange further states that the exploitation of arbitrage opportunities by Authorized Participants and their clients and customers will tend to cause the public trading price to track NAV per Share closely over time. What are commenters' views regarding these statements? For example, do commenters agree or disagree with the assertion that Authorized Participants and other market makers will be able to engage in arbitrage and to make efficient and liquid markets in the Shares at prices generally in line with the NAV?

I would think that setting the NAV price would help reduce the manipulation because most investors would rather not want to sell much lower or buy much higher than the bitcoin spot price. I would agree that gathering awareness for larger investors accessing bitcoin through investment especially in a safe manner whether in shares or the OTC bitcoin market or an exchange trading platform would broaden the investor base in bitcoin and reduce manipulation. I think that these past few months of the bitcoin market have been the most manipulation. Being at low volume for the last several months and the number of trades which I believe contributes to a lower amount of US dollar buy limit or sell limit orders placed on a given exchange, and therefore I think makes it easier for the rich to artificially pump or dump the bitcoin market. In contrast, I believe that more US dollar volume, more trades, and more buy and sell limit orders brings about less frequent and amplitude of manipulation such as the US Nasdaq or S and P 500 or Dow Jones Industrial Average. Perhaps conversing with the current cryptocurrency exchange trading platforms and asking for the possibility of setting a maximum limit to how many coins or US dollars are bought or sold per transaction per a given amount of time per a customer account so that maybe it could help limit extreme manipulation and prevent triggering stop losses that should not have been triggered such as the flash crash that happened with Ethereum on the GDAX exchange on June 22, 2017. I think it could be beneficial to encourage some exchanges to merge together so that there would be less tracking of bitcoin exchanges and less variance in prices and likely more US dollar volume for the exchange that merged. Also, I think it would be beneficial for exchanges or market makers, if they are not already doing so, to place large buy limit orders or sell limit orders to help prevent artificial pumping, stop losses from being triggered, aggressive panic selling or flash crashes.

4. What are commenters' views, generally, on whether the proposed ETP would be susceptible to manipulation?

I would think that the proposed ETP would likely be one of the least susceptible to manipulation if it will be one of the highest amount of US dollar volume as long as there are no

large market orders. If and when the ETF goes public I think that when it first starts trading publicly could have the most manipulation if all the investors invest around the same time and there is too much excitement. However, if the bitcoin price previously rallied before the ETF begins I think there would be less of a rally. I think it may be beneficial to compare the past bitcoin price history during the time when the futures bitcoin market for both CBOE and CME began trading. It may be beneficial to get an idea perhaps a poll to see the number of institutional investors or high net worth individuals that are interested in the proposed ETF, how much US dollars are they willing to invest and how much US dollars would they invest as a starting position.

5. What are commenters' views on whether and to what extent bitcoin futures markets generally, and current volume on those markets specifically, affect the susceptibility of bitcoin to manipulation? What are commenters' views on whether and to what extent other listed bitcoin derivatives, and the current volume on the markets for those derivatives, affect the susceptibility of bitcoin to manipulation?

I have heard from a voluntary news reporter on Youtube who suspects that when a future contract expires that the bitcoin market could be manipulative. I am not sure, but it could be worth investigating to see if there is any correlation, but you may also have to do a thorough investigation by checking the news during or near that time frame and technical analysis plays such as equilibrium breakouts, RSI levels, MACD crossings, breaking trend lines patterns or bouncing of support or resistances or other indicators before jumping to conclusions. I also think that technical analysis can sometimes manipulate prices pretty strong. For instance on October 10, 2018, I believe that the bitcoin price just dropped significantly as well as most alternate coins because the trend line broke bearish which my best guess is due to lack of volume (<https://www.tradingview.com/chart/BTCUSD/4Mwa5CKt-Bitcoin-Btcusd-Trend-Line-Broke-Bearish/>). Comparing the bitcoin volume and price from previous months, I believe the volume has been relatively low which could be due to investors in a depressed mood because of a general further loss from the alternate coins in the past few months, the ICO's having very little fundraising, catalysts that failed to spark a bull run such as the May 2018 consensus or a bitcoin ETF approval, or negative news concerning China banning bitcoin or when Goldman Sachs postponed the trading desk, multiple times of hacking or stolen coins on exchanges and the bullish news did not create much of a rally such as BAKKT, Starbucks, and institutional interest.

6. What are commenters' views on the Trust's proposal to value its bitcoin holdings based on an index—the MVBTCO—that is calculated through a proprietary, non-public methodology that uses the privately reported bid/ask spreads of an unidentified set of U.S.-based market-makers in the OTC marketplace, which, the Exchange says, has no formal structure and

no open-outcry meeting place? Is the use of a non-public proprietary index to value holdings based on OTC activity an appropriate means to calculate the NAV of an ETP? What are commenters' views on whether determining NAV based on the index value at 4:00 p.m. E.T. might, or might not, create an opportunity for manipulation of the NAV or of the Shares?

I would think that the time of calculating the NAV at 4:00 pm E.T. would not have much of an effect on manipulation since it is traded continuously. Perhaps comparing analysis at 4 pm E.T. with Grayscale Bitcoin Investment Trust Fund (GBTC) and the bitcoin market with other exchanges as well as other commodities such as gold. Perhaps also allowing premarket and after hour trading could be beneficial as well.

7. What are commenters' views on the statement in the Notice that, according to the Sponsor, the MVBTCO's methodology decreases the influence on the MVBTCO of any particular OTC platform that diverges from the rest of the data points used by the MVBTCO, which reduces the possibility of an attempt to manipulate the price of bitcoin as reflected by the MVBTCO?

I am not that knowledgeable to comment concerning the OTC platform, but I have heard from a voluntary news reporter on Youtube that the OTC platform trades with some very large US dollar orders and there are generally fewer trades made on a daily basis. If that is true then I would think that it may be too choppy/rough of a graph to track the price of bitcoin.

8. What are commenters' views on each of the set of alternative means by which the Trust proposes to value its holdings in the event that the Sponsor determines that the MVBTCO, or another alternate pricing mechanism, has failed or is unavailable?

As an alternative method to determine the price of bitcoin, I think that the average of multiple heavily traded exchange trading platforms would be the most accurate. Tracking the coinmarketcap.com bitcoin price wouldn't appear to be a bad idea, but it does list some exchange trading platforms that are low in US dollar volume or are priced high or low. I have also heard from a technical analyst on Youtube at one time that there may have been a difference or glitch with the tracking of the bitcoin price from coinmarketcap.com's listing price and the official website of the exchange trading platform's price.

9. The Exchange represents that, while the Trust intends to conduct the majority of its trading in the OTC market on the OTC platforms that comprise the MVBTCO, the Trust also will maintain an internal proprietary database, which it will not share with anyone, of potential OTC bitcoin trading counterparties, including hedge funds, family offices, private wealth

managers, and high-net-worth individuals. The Exchange further states that OTC bitcoin trading is typically private and not regularly reported, and that the Trust does not intend to report its OTC trading. What are commenters' views on how the Trust's unreported OTC trades may affect the calculation of the Trust's NAV and the ability of market makers to engage in arbitrage?

I am not sure, maybe it would be ok for the Trust not to be obligated to report its OTC trading, but I do think it may be necessary for at least people to be able to view the trade details such as the amount of coins, the price per coin, and the date and time of the trade occurrence just as you can see the trade history on the bitcoin exchange trading platforms as well as the stock market.

10. What are commenters' views on the relationship between trading in the OTC bitcoin market and the wider global bitcoin market? What are commenters' views on the circumstances pursuant to which the OTC bitcoin market may trade at a premium or discount to the global bitcoin market? What are commenters' views on whether or not the OTC bitcoin market would provide a measure of insulation from erratic or dislocated trading in the global bitcoin market?

I am not that knowledgeable of the OTC bitcoin market, but I would think that it would not be much different than any exchange trading platform as long as the buy or sells trades do not cause a major jump in bitcoin price on either one so that it would not confuse investors if they are viewing the price of bitcoin on the exchange trading platform and the OTC bitcoin market price and witness a huge price variance. However from what I have heard from a voluntary news reporter on Youtube where both parties have to meet up with each other and a lawyer before a deal is established and if this is true then I would think that it would be too much time, possible discomfort feeling if it's a stranger, and money spent to meet up leading to a little bit of discouragement for some investors. Whereas it would be so much easier and less time consuming to just place a buy order on an exchange.

11. What are commenters' views on the cost and the efficiency of arbitrage across the various global markets for bitcoin? What are commenters' views generally with respect to the liquidity and transparency of the bitcoin market, the bitcoin markets' susceptibility to manipulation, and thus the suitability of bitcoin as an underlying asset for an ETP?

When I compared the price of bitcoin with several different exchange trading platforms that are popular on tradingview.com, I don't think the price variance is too bad. I did notice that some of the less popular exchange trading platforms do tend to show bigger price gaps than a

popular exchange or coarse/choppy graphs due to low amount of trades or constantly trading a little above or below other exchanges. I think that it could be a bigger concern if there are big price differences between exchanges of large US dollar orders. If that's a concern, then I think it would be beneficial to encourage some of the exchanges if they would be interested in merging together. Also beneficial to encourage the exchange trading platforms to inform the shareholders of its plan to track the bitcoin spot price, because the investors could be used to the fact that the specific exchanges bitcoin price is always lower or higher than the bitcoin spot price.

12. What are commenters' views on the Exchange's representation that the Sponsor estimates that the U.S. dollar OTC bitcoin trading volume globally represents on average approximately 50% of the trading volume of bitcoin traded globally in U.S. dollars on U.S. dollar-denominated bitcoin exchanges? Is the volume of U.S. dollar trading of bitcoin—which excludes bitcoin trading against other sovereign currencies or digital assets—a meaningful or appropriate measure of bitcoin market volume? Why or why not?

If that is true that OTC bitcoin market makes up approximately 50% of the bitcoin trading volume compared to the total volume of all exchanges then I think that would be a meaningful measure for the bitcoin market. An idea that I have in mind that may also be appropriate to measure the bitcoin spot price is taking the average of the exchange trading platforms US dollar volume and the OTC bitcoin market US dollar volume trading and factoring it with the bitcoin prices across the exchange trading platforms and the OTC bitcoin market. For instance, if the total daily average of Bitcoin trading for the past 24 hours in total from the OTC bitcoin market and the exchange trading platforms is \$6 billion US dollars and \$4 billion was traded on the exchanges and \$2 billion was traded on the OTC bitcoin market then perhaps the OTC bitcoin could represent a factor of one third and the average of bitcoin price on the exchange trading platforms could represent a factor of two thirds of the bitcoin spot price.

13. What are commenters' views on whether the Exchange has entered into a surveillance-sharing agreement with a regulated market of significant size related to bitcoin? What are commenters' views on the current regulation of bitcoin-related markets? What are commenters' views on whether markets for listed bitcoin derivatives—such as bitcoin futures markets—are markets of significant size? What are commenters' views on whether there is a reasonable likelihood that a person attempting to manipulate the proposed ETP would also have to trade on a regulated bitcoin-related market with which the Exchange has a surveillance sharing agreement? What are commenters' views on whether trading in the proposed ETP would be the predominant influence on prices in a regulated, bitcoin-related market with which the Exchange

has a surveillance-sharing agreement?

I am not familiar with the surveillance-sharing agreement, but I believe the bitcoin market is of significant size. The bitcoin market cap is currently around \$110 billion according to coinmarketcap.com but it trades more than typical large cap stocks. Currently \$4 billion US dollars is traded on average daily for bitcoin on exchanges, but I would think that if and when the market goes back into a bull market, the US dollar amount would be on average at least two to five times the current average volume of \$4 billion, which would be similar to the excitement back in November and December of 2017. Also before May 2017 which is before most people started becoming aware of trading bitcoin, viewing on coinmarketcap.com bitcoin's dollar volume ranged only around \$50 to \$300 million between August 1 2016 and April 2017. Based on that assumption that if the bitcoin market continues to have an increasing acceptance and success that after the next full bull and bear cycle (maybe in a year or two) the future trading US dollar volume could be around \$10 to \$50 billion during the time of a bear market which would be much higher US dollar volume than it is now. I also have an idea that if successful while during the time when bitcoin mining is still active that bitcoin will generally not be priced much lower for a long period of time than the price it costs for the bitcoin mining factories to mine bitcoin. Comparing the bitcoin market average daily volume with one of the US largest traded stocks on the Nasdaq exchange, Apple which has a market cap of around 1 trillion dollars, trades an average of 7.14 million shares and with a current \$225 price per share the average US dollar volume is only about (7.14m X 225) 1.61 billion.

14. The Exchange represents that it has entered into a comprehensive surveillance sharing agreement with the Gemini Exchange. What are commenters' views on whether the Gemini Exchange is a market of significant size? What are commenters' views on whether there is a reasonable likelihood that a person attempting to manipulate the proposed ETP would also have to trade on the Gemini Exchange? What are commenters' views on whether trading in the proposed ETP would be the predominant influence on prices in the Gemini Exchange?

I am not very knowledgeable concerning the Gemini Exchange, but volume looks a little small in size with a 24 hour today volume on October 8, 2018 at 15 million US dollar compared with one of the most popular trading pairs Binance at 152 million US dollar tether pair. Based on that information as of right now, I think that the Gemini exchange could potentially have more frequent or bigger price swings than the Binance exchange. However after comparing the Gemini Exchange BTC/USD with several other popular exchange trading platforms BTCUSD or BTCUSDT, I think that the Gemini Exchange tracks the bitcoin price pretty well. If Gemini exchanges welcomes more institutional investors and there is an increase in volume amount then I think it could perhaps be one of the best reliable trackers for the bitcoin price.

<https://www.tradingview.com/chart/BTCUSD/TidktSAc-Bitcoin-BTCUSD-Comparing-Exchange-Price-Variance/>

15. According to the Exchange, the Shares will be purchased primarily by institutional and other substantial investors (such as hedge funds, family offices, private wealth managers, and high-net-worth individuals), which will provide additional liquidity and transparency to the bitcoin market in a regulated vehicle such as the Trust. The Exchange asserts that, with an estimated initial per-share price equivalent to 25 bitcoins, the Shares will be cost prohibitive for smaller retail investors while allowing larger and generally more sophisticated institutional investors to gain exposure to the price of bitcoin through a regulated product, eliminating the complications and reducing the risk associated with buying and holding bitcoin. What are commenters' views of the Exchange's assertions that transacting in the Shares will be geared toward more sophisticated institutional investors and will be cost-prohibitive for smaller retail investors? What are commenters' views regarding whether broker-dealers are likely to offer fractional shares in the Trust to retail investors, permitting retail investment with a smaller financial commitment? What are commenters' views of the Exchange's assertions that the Sponsor believes that demand from new, larger investors accessing bitcoin through investment in the Shares will broaden the investor base in bitcoin, which could further reduce the possibility of collusion among market participants to manipulate the bitcoin market, in light of the possibility that broker-dealers may offer fractional shares to their customers?

If the price per share is equivalent to 25 bitcoins, then I would definitely agree that most of the shareholders would be high net worth individuals and sophisticated institutional investors. Since the SEC previously rejected a few of the ProShares, Direxion and GraniteShares ETFs recently, I would think that the demand for investors who did not create an account on any of the cryptocurrency exchange trading platforms or feel afraid to place money into one of the bitcoin exchanges would be very interested in investing in bitcoin especially if the cryptocurrency prices rise again. After observing that cryptocurrency trades highly on emotions and rises when there is upcoming catalysts such as when the bitcoin futures opened at the end of last year and when more people became aware of cryptocurrency increasing the demand for bitcoin, then I believe cryptocurrency will start rising again or will already be at higher prices for when BAKKT starts allowing institutional investors. In general I have noticed that sectors at infancy stage are very volatile and highly emotional such as the medical drug industry and at the beginning stages of the Nasdaq and internet. There is the option of Grayscale Investment Trust Fund (GBTC) but it trades with a premium, it is on the OTC stock market exchange and the average daily volume and number of trades is not very high. I think the GBTC can be viewed as

an experiment to see how the bitcoin market on exchanges and the bitcoin OTC correlates with the stock market. I would think that if the SEC approves of any of the ProShares and Direxion and GraniteShares ETF proposals before the CBOE VanEck SolidX ETF then it could bring about more experiments to analyze. I would also think that it would be better to accept a smaller ETF size so that you can analyze how the market reacts such as manipulation and so that it would be easier to find, agree on and make modification before accepting a larger ETF. Also from what I read in an article about the ProShares ETF that if just tracks the bitcoin price and there is no holding of bitcoin then I would feel that there would be less worrying about the case if the ETF loses any bitcoin key/password or gets hacked or stolen.

16. The Exchange represents that that there will be at least 100 Shares outstanding at the time of commencement of trading on the Exchange and that this amount of Shares outstanding at the commencement of trading will be sufficient to provide adequate market liquidity. What are commenters' views on the Exchange's assertion that a minimum of 100 Shares outstanding at the time of commencement of trading will be sufficient to provide adequate market liquidity? What are commenters' views on whether the 100-share minimum would affect the arbitrage mechanism?

I am not sure given that if 100 shares x 25 bitcoins per share x 6700 (if the bitcoin price never changed from today October 8, 2018) = \$16.75 million dollars would be sufficient. If this is true, from what I have heard coming from a voluntary news reporter on Youtube who was mentioning of the possibility of institutional investor interest of US dollars could be in the multiple billions or trillions, then 100 shares maybe a little low. If 100 shares is a little low for this ETF perhaps encouraging a raise to a minimum of 500 or 1000 shares. However, I am not very knowledgeable analyzing the commencement of an Initial Public Offering. Bitcoin's average daily volume for the past few months have been around the ballpark of \$4 billion dollars, but during the excitement time of cryptocurrency around December 2017 and January 2018 bitcoin averaged around \$10 billion dollars with a few peaks of around \$20 billion dollars on December 8 and December 22-23 2017 according to coinmarketcap.com. Given that the bitcoin market cap being \$110 billion and an average daily volume of \$4 billion dollars is traded everyday then I would estimate that around 4.5% of bitcoin is being traded per day. Given that 4.5% of bitcoin is being traded every day is quite a lot and I think can magnify manipulation. If the current market cap of Bitcoin is around \$110 billion dollars, then perhaps it would be beneficial comparing a few popular large cap stocks which were already valued in the 100 billion dollar range before going public on the first day especially if it was already being traded on another foreign exchange. However, since bitcoin would also be trading at the same time across multiple other exchanges it may be beneficial to compare when a major cryptocurrency alternate coin becomes added to a larger exchange trading platform such as when Ethereum Classic became added to the Coinbase exchange.

17. What are commenters' views on the Exchange's assertion that, even though the Trust would not comply with the minimum number of shares outstanding required by Exchange rules, the policy concerns underlying that requirement would be otherwise mitigated in the case of the Trust, because the lower number of Shares is merely a function of the price of the Shares and will have no effect on the creation and redemption process or on arbitrage?

I think it is ok, I could agree with the Trust since one share is very expensive. I would also agree that I think it will discourage most retail investors from trading the CBOE ETF. It would also be very risky for most investors to invest a large amount of US dollars per an order. After all it is the price per share times the outstanding shares that dictates the market cap which determines the size.

18. The Exchange states that the Trust will maintain crime, excess crime, and excess vault risk insurance coverage underwritten by various insurance carriers that will cover the entirety of the Trust's bitcoin holdings. The Exchange further states that, while the Trust is confident in its system for securing its bitcoin, insurance coverage of all of the Trust's bitcoin holdings eliminates exposure to the risk of loss to investors through fraud or theft, which in turn eliminates most of the custodial issues associated with a series of Commodity-Based Trust Shares based on bitcoin. What are commenters' views of whether the proposed insurance coverage would affect trading in the Shares or in the underlying bitcoins? What are commenters' views regarding the Trust's proposed security, control, and insurance measures?

I would just hope that the bitcoin does not get hacked or stolen because that could lead to a devastating sell off, emotional sadness, and lack of confidence for people to have future investing interest in cryptocurrency and the OTC bitcoin market.