



January 6, 2021

U.S. Securities and Exchange Commission  
Secretary  
100 F Street NE  
Washington, D.C. 20549

Re: File Number SR-CboeBZX-2020-070

On September 4, 2020, the Cboe BZX Exchange filed an application to list and trade shares of the -1x Short VIX Futures ETF (Ticker: SVIX) (the “Fund”). As the sponsor of the Fund, we appreciate this opportunity to comment publicly in support of this listing.

As you may be aware, all short-term VIX exchange-traded products (“VIX ETPs”) presently rebalance or roll their futures contracts according to a methodology linked to the VIX futures’ settlement each day. This focus on the daily settlement price by all past and existing VIX ETPs has resulted in funds competing to execute their daily rebalance at the VIX futures settlement each day. This concentrated activity is eroding returns and may have contributed to at least one major market disruption.<sup>1</sup>

Previous attempts at reducing this concentration on the VIX futures settlement by deleveraging existing inverse and leveraged VIX ETPs has only slowed the progression of market crowding. Delevered VIX ETPs can over time attract proportionally larger inflows, which in turn will require larger and larger rebalances at the same crowded settlement time.

Volatility Shares addresses this market crowding by developing a methodology for the Fund that differs from that used by all previous and existing VIX ETPs in four important ways:

1. The Fund’s daily valuation is calculated from the average futures prices over 15 minutes between 3:45 pm – 4:00 pm (Eastern time) instead of exclusively from the 4:00 pm (Eastern time) futures settlement price; and
2. The Fund’s primary rebalance period between 3.45 – 4:00 pm (Eastern time) distributes trading volume in VIX futures away from the 4:00 pm (Eastern time) settlement market; and
3. The Fund’s rebalance is more flexible, allowing for an extension of the rebalance period to reduce market impact if required; and

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<sup>1</sup> On February 5, 2018 crowding of the VIX futures TAS market caused the market to halt ‘limit up’ and may have resulted in panicked VIX futures buying and major losses for XIV and SVXY. This temporary spike in the VIX futures reverted the following morning but may have been avoided altogether.



4. Volatility Shares has committed to a methodology for minimizing market impact while performing the Fund's rebalance.

When taken together, these methodology differences should make a healthy contribution to the VIX ecosystem. By altering the valuation period, and hence the target period over which the Fund rebalances its portfolio, the methodology will help reduce the dependency of VIX ETPs on the VIX settlement market. This dependence by previous and existing VIX ETPs has risked eroding performance, and perhaps more importantly, may have triggered a major market disruption on February 5, 2018.

The Fund will perform its rebalance over a minimum of 15 minutes and at a time when present VIX ETPs are not active in the futures market. Distributing the rebalance volume in this way should reduce the chances of a short-term mispricing in the VIX futures. We believe that the Fund's focus on the 3:45 – 4:00 pm (Eastern time) period will also help increase overall liquidity in VIX futures by offering liquidity providers an opportunity to trade this rebalance period against other trading periods including the Trade At Settlement (or TAS) Market.

Furthermore, on days of considerable market volatility, or during periods of limited VIX futures liquidity, the Fund's more flexible methodology allows its rebalance to be altered to further reduce market impact. This, taken together with Volatility Shares' commitment to an execution method that minimizes market impact should reduce the risk of crowding in the VIX futures market - as may have been the case in the settlement market on February 5, 2018 - and meaningfully lower the chances of the Fund experiencing a significant disruption.

Volatility Shares appreciates the opportunity to comment publicly in support of this listing and believes that the unique characteristics of the Fund will contribute an important step in the positive evolution of VIX ETPs.

Respectfully submitted,

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