



September 13, 2024

Vanessa A. Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: SR-ISE-2024-03

Dear Ms. Countryman:

Better Markets<sup>1</sup> appreciates the opportunity to provide further comment on the proposed rule change filed by Nasdaq ISE, LLC, seeking to list and trade options on iShares Bitcoin Trust.<sup>2</sup> The Commission approved Nasdaq's listing and trading of iShares Bitcoin Trust in January 2024.<sup>3</sup> The Commission should not compound its mistake in approving this spot bitcoin exchange-traded product (ETP) by approving the listing and trading of options on the ETP.

The Commission solicited comment on whether listing options on spot bitcoin ETPs would result in adverse market impacts. The answer is that it would.

In our initial comment letter, we stated that given bitcoin's already existing notorious volatility, the Commission should tread carefully before approving the trading of options on spot bitcoin ETPs.<sup>4</sup> We noted that options trading on spot bitcoin ETPs would inevitably be marketed to retail investors, that options trades are typically unsuitable for retail investors even in the case of traditional securities such as stocks, and that the availability of options on a volatile product like spot bitcoin ETPs could leave a trail of destruction in its wake.<sup>5</sup> We also noted that the approval of spot bitcoin ETPs deepened ties between the volatile world of cryptocurrencies and the traditional financial system, that spot bitcoin ETPs posed financial stability risks due to bitcoin's volatility, and that options on spot bitcoin ETPs would further entangle the crypto industry with traditional finance and aggravate those risks.<sup>6</sup> So options trading in spot bitcoin

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<sup>1</sup> Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements, and more. SR-ISE-2024-03.

<sup>2</sup> Exchange Act Release No. 99306 (Jan. 10, 2024), 89 Fed. Reg. 3008 (Jan. 17, 2024).

<sup>3</sup> Better Markets, Comment Letter re: SR-BOX-2024-07; SR-CBOE-2024-005; SR-ISE-2024-03; SR-ISE-2024-14; SR-MIAX-2024-03; SR-NYSEAMER-2024-10; SR-PEARL-2024-03 (May 21, 2024), <https://bettermarkets.org/wp-content/uploads/2024/05/Better-Markets-Comment-Letter-Spot-Bitcoin-ETPs.pdf>, at 5.

<sup>4</sup> *Id.* at 3-4.

<sup>5</sup> *Id.* at 4-5.

ETPs could harm the market as a whole as well as individual investors.<sup>7</sup> Recent events have confirmed the riskiness and potential adverse market impacts of allowing options trading on spot bitcoin ETPs where the asset underlying the ETP is the notoriously volatile bitcoin.

In early August, bitcoin dropped 15% in a 24-hour period.<sup>8</sup> The overall value of cryptocurrencies sank by about \$367 billion.<sup>9</sup> This “latest crypto wipeout” was “felt by a broader base of investors after the SEC this year approved new spot exchange-traded funds for bitcoin.”<sup>10</sup>

Bitcoin’s price on August 4-5, 2024<sup>11</sup>



Bitcoin dipped briefly below \$50,000 on Monday, August 5, 2024.

At one point, bitcoin dropped 7% in an hour. While some speculated that the approval of spot bitcoin ETPs “may reduce the volatility of bitcoin prices,”<sup>12</sup> that has not proven to be the case. Instead, we have seen a “stark reminder of how erratic the cryptocurrency can be.”<sup>13</sup>

<sup>7</sup> *Id.* at 4.

<sup>8</sup> MacKenzie Sigalos, *Crypto selloff wipes out \$367 billion in value as bitcoin, ether plunge*, CNBC (Aug. 5, 2024), <https://www.cnbc.com/2024/08/04/crypto-plunge-wipes-out-270-billion-in-value-as-bitcoin-ether-plunge.html>.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> Svashree Ghosh et al., *Bitcoin price plunges and ether has worst drop since 2021*, Fortune (Aug. 5, 2024), <https://fortune.com/2024/08/05/bitcoin-price-plunges-ether-worst-drop/>.

<sup>12</sup> Ken Armstrong et al., *Do Exchange-Traded Products Improve Bitcoin Trading*, Liberty Street Economics (May 28, 2024), <https://libertystreeteconomics.newyorkfed.org/2024/05/do-exchange-traded-products-improve-bitcoin-trading/>.

<sup>13</sup> Mike Winters, *Bitcoin’s dizzying price movements make it a risky investment, say investing experts: ‘It’s pure, unadulterated speculation.’* CNBC (Aug. 8, 2024), <https://www.cnbc.com/2024/08/08/bitcoins-volatility-makes-it-a-risky-investment-experts-say.html>.

After rebounding throughout the month, bitcoin again dropped 7.5% over a week in early September.<sup>14</sup> This coincided with bitcoin ETPs losing \$1.2 billion over eight days.<sup>15</sup>

Although sophisticated investors may use options to hedge against risk,<sup>16</sup> most investors in bitcoin ETPs have been retail investors,<sup>17</sup> and retail investors are increasingly trading options.<sup>18</sup> The problem is that in the hands of retail investors options are akin to gambling.<sup>19</sup> Between November 2019 and June 2021, for example, retail investors lost over \$2 billion trading options.<sup>20</sup> So options trading is risky for retail investor generally. That risk would be compounded exponentially in the case of options on bitcoin ETPs because for retail investors “crypto options trading can be risky on top of an already volatile crypto market.”<sup>21</sup>

The fact that bitcoin ETP issuers are well-known firms appears designed to give retail investors a false sense of security even though they are essentially investing in bitcoin. Indeed, in some ways investing in spot bitcoin ETPs may be riskier than investing in bitcoin directly because spot bitcoin ETPs only trade during trading hours.<sup>22</sup> Regardless, the recent volatility in bitcoin serves as “big reminder” that bitcoin is a “risk asset[.]” and “sits at the pointy end of the risk spectrum.”<sup>23</sup> Essentially, it is “pure, unadulterated speculation.”<sup>24</sup> Its value “seems to largely hinge on speculation and market sentiment, rather than intrinsic value.”<sup>25</sup> This makes it incredibly risky because it is impossible to predict its value or its volatility.<sup>26</sup> Spot bitcoin ETPs expose retail investors to the risks that come with investing in bitcoin to an unprecedented degree. Options trading on spot bitcoin ETPs would only further exacerbate those risk.

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<sup>14</sup> Kelly Cloonan, *Bitcoin ETFs lost \$1.2 billion in 8 days as markets swing amid latest economic data*, Business Insider (Sept. 9, 2024), <https://markets.businessinsider.com/news/etf/bitcoin-etfs-economic-data-selloff-risk-assets-august-jobs-report-2024-9>.

<sup>15</sup> *Id.*

<sup>16</sup> *Retail Investors are losing billions buying stock options*, The Economist (Mar. 7, 2023), <https://www.economist.com/graphic-detail/2023/03/07/retail-investors-are-losing-billions-buying-stock-options>.

<sup>17</sup> Helene Braun, *Bitcoin ETFs’ Hot Start Seems Largely Driven by Retail Investors*, CoinDesk (Mar. 18, 2024), <https://www.coindesk.com/consensus-magazine/2024/03/18/bitcoin-etfs-hot-start-seems-largely-driven-by-retail-investors/>.

<sup>18</sup> *Retail Investors are losing billions buying stock options*, supra note 16.

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*; see also Betsy Vereckey, *Retail investors lose big in options markets, research shows*, MIT Sloan (Aug. 4, 2022), <https://mitsloan.mit.edu/ideas-made-to-matter/retail-investors-lose-big-options-markets-research-shows>.

<sup>21</sup> *The Investor’s Guide to Crypto Options Trading*, Blockworks (June 1, 2022), <https://blockworks.co/news/the-investors-guide-to-crypto-options-trading>.

<sup>22</sup> *See Crypto sell-off deepens as weak economic data dampens risk-taking*, Reuters (Aug. 5, 2024), <https://www.reuters.com/technology/bitcoin-falls-569-58987-2024-08-04/#:~:text=Aug%20%28Reuters%29%20-%20U.S.-listed%20shares%20of%20crypto-linked,set%20off%20a%20frenzied%20selling%20of%20risky%20assets>.

<sup>23</sup> *Id.*

<sup>24</sup> Winters, supra note 13.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

**Conclusion**

We hope these comments are helpful as the Commission considers this matter.

Sincerely,

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