Jim Wiandt
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June 11, 2019

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

Re: File No. SR-NYSEArca-2019-01: Proposal to List and Trade Shares of the Bitwise Bitcoin ETF Trust Under NYSE Arca Rule 8.201-E

Dear Mr. Fields -

My name is Jim Wiandt and I am a twenty-year veteran of the index fund and exchange-traded fund industry. I am today the President of Donostia Ventures, an investment and consulting firm, and was previously the founder and CEO of IndexUniverse LLC.

IndexUniverse LLC was the parent company of multiple entities that provided education, data and insight around the ETF space, including:

- **ETF.com:** The world's leading ETF web site, focused on serving the financial advisor community.

- **Inside ETFs:** The world's leading ETF conference company, producing the largest ETF-focused events in the U.S., Europe and Asia (the flagship event, Inside ETFs, draws more than 2,500 people to Florida each year).

- **ETF Report:** The first and most important ETF-focused print magazine.

- **Journal of Indexes**: The first print publication covering the index and index fund space.

- **ETF.com data:** The first institutional-grade ETF classification and data system.

The IndexUniverse businesses were sold successfully in 2015 and 2016, with FactSet acquiring the data business, Bats Global Markets acquiring the print and online media business, and Informa acquiring the events business. Although I am no longer affiliated with the businesses, all three continue to thrive: Our ETF data still serves as the core ETF data on FactSet, our media business still leads the market, and our conferences remain the largest in the world.

While at IndexUniverse LLC, I spent an enormous amount of time focused on helping investors understand how ETFs work, including educating people on the core functioning of the creation/redemption mechanism. I am proud that, to this day, the number 1 search result you get when you enter "ETF Creation Redemption" into a Google search engine is an article from ETF.com.

It is with this long-standing experience that I write this letter today.

Does The Use Of In-Kind Creations And Redemptions (And Fee Accrual) Protect The Proposed Bitwise Bitcoin ETF Trust From NAV Manipulation?

One of the fourteen questions the SEC wrote in its Order Instituting Proceedings for file File No. SR-NYSEArca-2019-01 was as follows:

> *14. What are commenters' views on the Sponsor's assertions that the proposed in-kind creation and redemption mechanism and payment of Trust expenses directly in bitcoin would insulate holders of the Shares from harm resulting from manipulation of the Shares' net asset value?*

The answer is simple: The Sponsor's assertions on this point are true.

The proposal to both process all creations and redemptions in-kind *and* receive payment of Trust expenses exclusively in bitcoin causes the fund to exist in a "bitcoin-denominated world," where even grotesque manipulation of the Trust's NAV would not harm holders of the fund.

Consider the most extreme example.

Let's imagine that the Bitwise Bitcoin ETF Trust has 1 million shares outstanding and holds 10,000 bitcoin, meaning each share has a pro rata stake of 0.01 bitcoin. The price of bitcoin today is fluctuating around $8,000, so let's use that as our fixed price. That means the NAV of the fund (if that NAV is functioning properly) is $80.

Now let's imagine that someone wants to create 1 million more shares of the fund. Let's further imagine that someone manipulates the NAV such that it temporarily drops to just $40, a figure that would suggest that a bitcoin is worth $4,000, when we know that the real market is at $8,000. To make matters worse, let's say this manipulation takes place at the precise moment when the official NAV that serves as the price metric for new shares is typically struck (4pm ET).

In a cash create scenario, the new investor would send in $40 million and receive 1 million new shares of the Trust. When the Trust took that cash and went into the market to buy bitcoin, it would not be able to buy it at the artificial price of $4,000, but would instead pay the real price of $8,000. As a result, the fund would only be able to buy 5,000 bitcoin. At the end of the day, the Trust would have 2 million shares outstanding but only 15,000 bitcoin. That means each share would have a pro-rata stake of 0.0075 bitcoin, worth $60/share.

This would be disastrous: The original shareholders would see the value of their investment fall from $80/share to $60/share without the underlying bitcoin market changing at all! Meanwhile, new investors would have exploited the NAV mis-pricing to profit, paying just $40/share but getting something worth $60/share.

In an in-kind scenario, however, no harm occurs: the person who wants to buy 1 million new shares of the Trust must send in 10,000 bitcoin regardless of what the NAV price says. That means, at the end of the day, the Trust will have 2 million shares outstanding and 20,000 bitcoin, meaning each share still has a pro-rata right to 0.01 bitcoin and is worth $80. The NAV is irrelevant.

I have seen proposals in the past that have asserted that this protection against manipulation exists, but those proposals have stopped short of offering true protection because they did not extend their ind-kind divisors to fees. Instead, those offerings committed to engaging in in-kind creations and redemptions, but still promised to extract fees based on the NAV price. In the scenario outlined above, that would cause the fund to extract 2X the fees it is actually entitled to on the day of the NAV price manipulation.

One unique aspect of the Bitwise proposal is that it promises to accrue all fees in bitcoin, as well exclusively using in-kind creations and redemption, meaning its entire economic life will be denominated in bitcoin. As such, the Bitwise Bitcoin ETF Trust insulates investors from the potential negative long-term impact of NAV manipulation.

What About Trading?

One concern that might arise from a manipulated NAV is whether you would see aberrant pricing of the ETF on the secondary market. But the ETF industry offers plenty of examples where investors are able to look past aberrant, stale, and incorrect NAVs and instead focus price discovery efforts on the ETF itself.

For example, during the 2008/2009 financial crisis, many high-yield bond ETFs traded to significant premiums and discounts versus their stated NAVs. But, subsequent analysis suggested that the NAVs were lagged and the real price discovery occurred in the ETFs. A retrospective analysis by BlackRock explained the following:

> *As liquidity in the underlying bond markets declined in June 2008, investors increasingly turned to this ETF for liquidity. The ETF continuously traded, in an orderly manner, while underlying bond market activity declined. Because the ETF continued to match buyers and sellers of investment grade bond exposure while the market for individual investment grade bonds ceased to function effectively, the ETF permitted market participants the best means of establishing the real current value at which transactions in investment grade bonds could occur. The same is true for other bond ETFs and for other stressed periods, including corporate credit funds in the "Taper Tantrum" of 2013. Of course, premiums and*

discounts often widen in stressed times, but we caution against interpreting this phenomenon as mispricing. Rather, the ETF price, which is determined by actual transactions between willing buyers and sellers, can move very quickly to reflect prevailing conditions while NAV, which is calculated once daily based on known previous bond transactions or estimates of value (which may not be occurring frequently during stressed markets), tends to adjust to new market levels with a lag. Because ETF share prices may "lead" other indications of underlying bond value, ETFs can provide insight into the direction of the markets for the underlying securities. This "price discovery" attribute is an important feature of ETFs.[1]

You don't need to look as far afield as the 2008 financial crisis, however, to see examples of investors who can look past aberrant, stale or incorrect NAV prices. Any ETF with foreign-listed equities–say, for example, a Japanese equity ETF–will have a NAV that is out-of-sync with the U.S. trading day, simply because the equities it holds are listed on a market that is not open when the U.S. market is trading.

Investors are smart. The know that the NAV is a useful guide for trading, but few take it as the canonical source for pricing when other pricing sources exists as well. When it is clearly erroneous or unexecutable, it is ignored.

To return to our bitcoin example, if the NAV of the fund crashed to $4,000/bitcoin due to market manipulation, but the real market (expressed, for instance, in the front-month CME bitcoin futures market) continued to trade at $8,000, investors would not try to drive the price of the ETF down to $4,000, but would rather ignore the NAV until it was restored to a level that reflected the true market.

Conclusion

The global bitcoin market is deep and robust, divided amongst multiple spot and futures exchanges and supported by institutional market makers like Jane Street, Susquehanna International Group and Flow Traders. It's unlikely that any attempt to manipulate that market can last for long.

Instead, to the extent that concerns about NAV manipulation exist, they must focus on short-term manipulation of the NAV; of mini flash crashes sucking the oxygen out of the room, or bitcoin whales temporarily shuddering the market with their heft.

The cleverness of the Bitwise proposal is that these manipulative attempts won't succeed in impacting the Trust. The exclusive use of in-kind creations and redemptions, and the decision

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[1] "Bond ETFs: Benefits, Challenges And Opportunities," BlackRock, July 2015. https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-bond-etfs-benefits-challenges-opportunities-july-2015.pdf

to accrue all fees in bitcoin, means that attempts to manipulate the NAV will be for nought. Long-term investors will be protected.

Throughout its history, the ETF structure has allowed investors easy, secure, and low-cost access to important markets, from stocks to bonds to commodities and more. Investors are better as a result. It would be a win for investors if this protection and the related opportunity could be extended to bitcoin as well.

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