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March 3, 2022

Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-0609

Re: Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to List and Trade Shares of Grayscale Bitcoin Trust (BTC) under NYSE Arca Rule 8.201-E
File No. SR-NYSEArca-2021-90
Release No. 34-94151

Ladies and Gentlemen:

We write in response to your request for comments on NYSE Arca's proposal to list shares of Grayscale Bitcoin Trust (BTC) as an exchange-traded product, or ETP. Hunting Hill Global Capital, LLC is an asset manager whose investment strategy seeks to capitalize on market structure-related arbitrage opportunities, trading globally in ETPs, stocks, bonds, derivatives and other financial instruments. We hold positions in the Grayscale ETP from time to time on behalf of our clients.

We are providing our views on the topics raised in question no. 5 of the release referenced above. As we explain below:

- The CME bitcoin futures market undoubtedly represents a regulated market of significant size; and

- Given the significant size of the CME bitcoin futures market, we believe there is more than a reasonable likelihood that a person attempting to manipulate the Grayscale ETP would also have to trade on the CME bitcoin futures market in order to successfully manipulate the Grayscale ETP.

Using Bloomberg trading data for the 365 days ended February 4, 2022 (the date of the above-referenced release) across all spot (i.e., cash) bitcoin trading venues and all CME bitcoin futures contract maturities,[1] we find that the CME bitcoin futures market is more significant than the bitcoin spot market itself.[2]

[1] We used a Bloomberg dataset for the analysis and conclusions described in this letter. We trust the SEC has this dataset available to it but if not, we would be pleased to offer our assistance to the SEC in obtaining it.

[2] To the extent Bloomberg does not include data from some trading venues in jurisdictions with comparatively less regulation and market surveillance than the United States, if manipulative activity in (….continued)

Over this time period, the aggregate futures volume ($579bn) was 31% higher than aggregate spot volume ($442bn). We do not believe this result is due to a few extraordinary high-volume periods in the futures market; after bucketing the data by week and conducting a paired t-test on the differences in means, we find that the difference is statistically significant with a t-statistic of 4.9. Whatever concerns the SEC may have about the integrity of trading in the bitcoin spot market, if the larger CME bitcoin futures market is not "significant," then proving the existence of a significant market would be by definition impossible, and the SEC would need to formulate a new test for ETP approval.

Looking at the lead-lag relationship between the spot and futures markets and using minute-by-minute last-price data over the same time period, converted to percentage price changes, based on the first lagged term for both markets we conclude that the relationship between spot and futures prices is complex and interrelated with no clear winner. Instead, the results of the test of which market is leading depends on the time period of testing. We therefore find causality between pricing in both markets, which we believe disproves the propositions that futures price changes do not cause spot price changes and that spot price changes do not cause futures price changes. The t-statistics for both tests are above 2.

It would not be reasonable for the SEC to require, as a condition to approving the Grayscale ETP, a demonstration that pricing in the futures market *always* leads the spot market. This would be tantamount to requiring that an obvious statistical arbitrage opportunity exists between two highly liquid and automated markets: if that were the case, any trader would be in a position to profit immensely. While such a requirement might make sense (as a shortcut) in the context of an administrative determination to approve an ETP for a physical commodity where spot markets lack automated intermarket connectivity (with the result that spot/futures arbitrage opportunities would not be so blatant), imposing such a requirement in the context of a bitcoin ETP would be the same as a declaration that bitcoin ETPs will never be approved in the United States, regardless of the structure of the spot market.

We also do not consider it likely that a bad actor would attempt to manipulate the Grayscale ETP through trading on offshore cryptocurrency trading venues. First, offshore trading venues generally do not support fiat trading and instead only support trading between different cryptocurrencies. To the extent such venues support bitcoin trading versus USD (e.g. FTX.com and FTX US), we understand the data has been included by Bloomberg in the dataset for the above analysis. Some offshore trading venues allow for bitcoin to be exchanged to Tether, a stablecoin partially backed by USD-denominated assets; however, Tether often trades at substantial premiums and discounts to USD and we believe it is commonly thought that redemptions of Tether for USD are not guaranteed by full liquid reserves. This makes it unlikely that a trader would use Tether

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those jurisdictions is impacting trading venues included in the Bloomberg dataset, the Bloomberg data would of course be influenced by that activity.

as a proxy for USD. Because manipulation in the bitcoin/USD exchange pair would likely result in a widening of Tether premiums and discounts, it would not be economically practical for a bad actor to manipulate the Grayscale ETP using Tether-denominated bitcoin prices. Second, offshore trading venues generally offer trading in bitcoin derivatives such as quarterly futures and perpetual futures; however, both would be poor choices for a bad actor seeking to manipulate the Grayscale ETP because both are known to deviate from the bitcoin spot price much more than CME futures. Because of this relationship, any bad actor seeking to manipulate the Grayscale ETP would risk expanding or contracting the premium of the derivative being used as a manipulation tool rather than influencing bitcoin spot prices.

The SEC is focused on whether a bad actor intent on manipulating the Grayscale ETP would need to trade in the regulated CME bitcoin futures market, which would mean that the actor's manipulative activity would be detectable and therefore preventable by a U.S. regulator. Given the relative size of trading volumes of bitcoin futures relative to spot, the strong dependence of spot prices on futures prices and vice versa, and the inefficiency of attempting to manipulate the Grayscale ETP through offshore trading, we believe the dataset shows that such an actor would be unable to manipulate the Grayscale ETP without also trading in the regulated futures markets.

We would be pleased to discuss our analysis with the Commission and its staff in greater detail.

Sincerely yours,

HUNTING HILL GLOBAL CAPITAL, LLC