

March 21, 2022

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

RE: Notice of Filing of 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.: 34-93504

Dear Ms. Countryman,

We, Lightning Capital, a crypto asset management company, are writing to you on behalf of American investors in support of approving Grayscale Bitcoin Trust (“GBTC”) as a spot Exchange Traded Product (“ETP”). Our team has tracked this product since its inception and witnessed it trade at extreme premiums and discounts to Net Asset Value (“NAV”). This deviation from NAV is against the interests of American investors. Additionally the Commission’s approval of bitcoin futures ETP’s, as an alternative to a spot bitcoin ETP, has come at a cost to American investors due to contango bleed. Therefore, we offer our support for the application and in our letter aim to provide the Commission with further data why the passage of a spot bitcoin ETP will benefit retail investors in the United States of America.

The SEC’s mandate is to protect US retail investors. However, a passage of the futures bitcoin ETP vs spot bitcoin ETP appears to contradict that. The majority of retail investors who have purchased the first futures bitcoin ETP, Proshares Bitcoin Strategy ETF (symbol: BITO), suffer from contango bleed, a term the ‘average’ American investor does not understand. At the approval of the first futures ETP, investors pay an effective monthly premium of approximately 4%, or approximately 12% annualized premium, to purchase the futures contracts for the fund. This premium is effectively a tax upon every American investor in this futures ETP. When we compare this to the efficient capital markets costs American investors pay to invest in typical ETPs of 25 to 100 basis points, we impute a fee multiple of 10 to 40 times the customary cost burden on American Investors. This begs the question: who is receiving these fees that are an order of magnitude higher than the median, and the follow up query; who is protecting American investors from such spurious costs.

The SEC has consistently mentioned that it would not approve a spot product because the bitcoin market is manipulated. We understand that you must abide by the regulatory framework appropriate for this product. However, bitcoin is a very unique product. Depending on who you ask, it can be a commodity or a currency or both. We respectfully suggest that the Commission consider a modern degree of flexibility on the framework for this ETP. The Grayscale Bitcoin Trust is a product which has a market capitalization of approximately \$30 billion with an average daily volume of \$6.8M over the past 30 days. The market

capitalization of bitcoin is close to \$1 trillion. In a recent Barron's article, Commissioner Hester Pierce says "Some analyses show that the futures market is actually leading the spot markets – meaning that if you are trying to manipulate the spot markets, you'd have to also manipulate the futures market." We haven't witnessed manipulation, but if the Commission has, we would like you to share what data you analyzed that demonstrates this. The public and private data we study provides us with a high degree of confidence that the bitcoin market is a healthier, more efficient and more transparent market than classes of our traditional markets.

In early January 2022, the GBTC discount widened from -20% to a low of -30.2%, causing shares of GBTC to underperform spot BTC price during a risk-off period, further harming American Investors. Historically, in December 2017, GBTC experienced a premium of over 120% and most recently in January 2022, GBTC had a discount greater than 30%. Most US retail investors do not understand the premium/discount for this product. We have not been able to find any rationale on the SEC website explaining this to American investors. Allowing GBTC to continue to trade at a premium or discount to NAV is hurting American investors, many of whom have this investment in their retirement accounts.

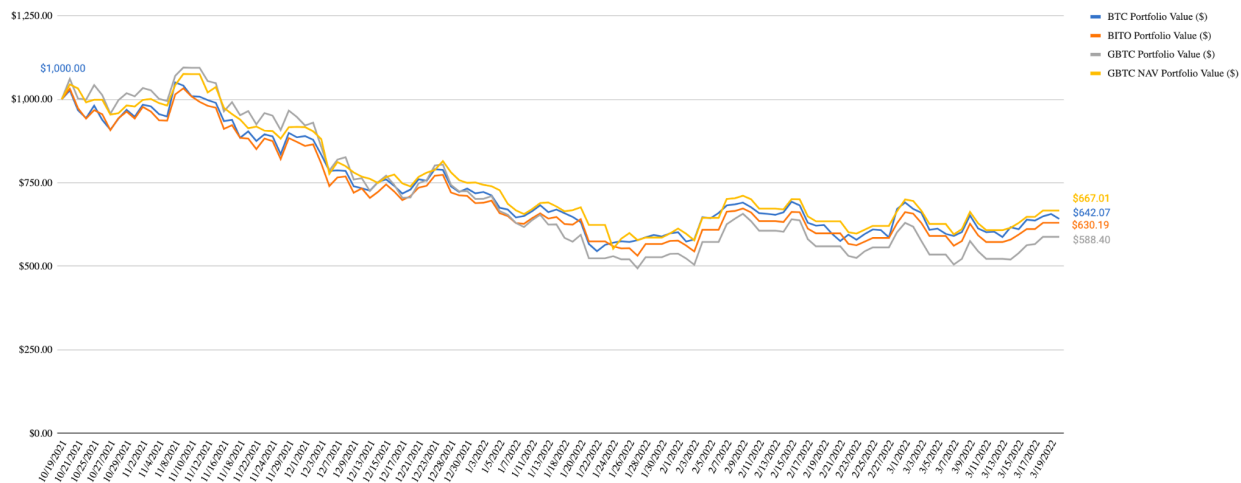
Grayscale consistently publishes reports of the increase in interest of bitcoin in American Investors' retirement accounts. We calculate that many retail investors purchased GBTC directly in their brokerage accounts at a premium to NAV. Now that there is a discount, they are likely to have lost substantial value. If the Commission approves the conversion to a spot ETP, the retail investors would only be subject to the volatility of bitcoin and GBTC will become highly correlated to bitcoin which is what retail American investors want.

Since the approval of the BITO as a futures bitcoin ETF, we decided to track the following bitcoin products:

- BITO
- GBTC at NAV
- GBTC at market price
- Bitcoin price

Based on the chart below, we have noticed that BITO is, not surprisingly, underperforming relative to bitcoin. GBTC is also underperforming bitcoin due to the widening discount relative to NAV. However, GBTC at NAV demonstrates it is tracking bitcoin very closely.

Growth of \$1,000 Investment in BTC vs. BITO vs. GBTC vs. GBTC NAV



In addition, due to regulatory restrictions around margin requirements, the existing futures ETFs cannot have 100% of holdings in bitcoin futures. The American investor, with access to BITO or Valkyrie’s BTF, might think they have full exposure to bitcoin or bitcoin futures, oftentimes these funds are holding anywhere from 15% to 55% of other assets, mostly treasury bills or cash. Ultimately, dilution is not protecting the American investor, it is only hurting them.

Michael Sonnenshein, CEO of Grayscale Investments, has publicly stated they will decrease the management fee of GBTC upon approval. This would be another benefit to the American investor.



If **\$GBTC** is approved to convert to a Spot Bitcoin ETF:

- We will reduce our management fee
- Mechanisms inherent to an ETF should effectively close the discount to NAV
- U.S. investors will get a new option to access the spot price of **#Bitcoin**

Source: https://twitter.com/Grayscale/status/1496112240818327557?s=20&t=AXfkeS6EIRQBVx_hag4woQ

We strongly support the conversion of GBTC into a spot ETP because it will enable retail and institutional investors to properly build exposure in Bitcoin at more accurate prices while removing the penalty that longer term investors pay for holding less desirable products such as futures ETFs. A conversion of GBTC to a spot Bitcoin ETP significantly benefits American investors over existing products while truly recognizing the SEC’s mandate to protect American investors.

Sincerely,

Charles Jason Jock

Charles Hwang, Jason Albanese, Jock Percy
General Partners,
Lightning Capital