MEMORANDUM

To: Crypto Task Force Meeting Log
From: Crypto Task Force Staff
Re: Meeting with Representatives of Grayscale Investments, LLC and Davis Polk & Wardwell LLP

On April 21, 2025, Crypto Task Force Staff met with representatives from Grayscale Investments, LLC and Davis Polk & Wardwell LLP.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. Grayscale Investments, LLC and Davis Polk & Wardwell LLP representatives provided the attached documents, which were discussed during the meeting.

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Via Request Form
Taylor Asher, Chief Policy Advisor
Richard Gabbert, Chief of Staff
Crypto Task Force
U.S. Securities and Exchange Commission
100 F Street, N.E., Washington, DC 20549-0213

Re: SEC Crypto Task Force Meeting

Dear Members of the SEC Crypto Task Force,

We appreciate the opportunity to engage with the Securities and Exchange Commission's Crypto Task Force.

We submit this letter pursuant to the Commission's procedure for requests to meet with the Crypto Task Force to discuss staking in crypto ETPs. Specifically (1) NYSE Arca/Grayscale's amended Form 19b-4 regarding the ability to stake in Grayscale Ethereum Trust ETF (ticker: ETHE) and Grayscale Ethereum Mini Trust ETF (ticker: ETH), (2) our proposed model for staking in those ETPs and (3) considerations that went into our model, as more fully described in the attached presentation.

We look forward to our discussion.

Sincerely,

Craig Salm, Chief Legal Officer
Grayscale Investments

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Staking in Ethereum ETPs

March 2025

Executive Summary

US Ethereum ETPs (“ETH ETPs”) should be allowed to stake their ETH

- As of late February 2025,[1] US ETH ETPs hold **$8.1 billion** in assets under management (AUM), representing **~3%** of all ETH outstanding[2]
  - Grayscale Ethereum Trust ETF (ticker: ETHE) and Grayscale Ethereum Mini Trust ETF (ticker: ETH), collectively, the largest ETH ETP franchise in the world, hold **$2.8 billion** and **$1.1 billion AUM**, respectively, representing nearly **50%** of all ETH in US ETH ETPs
  - US ETH ETPs have experienced **$2.8 billion** of net inflows and have traded **$61.2 billion** since launch
- The average annualized staking rewards rate on the Ethereum protocol is **~3.1%**[3]
- Preventing US ETH ETPs from staking has kept **> $61 million** from such ETPs to date, not including additional benefits of compounding rewards[4]
- Non-US ETH ETPs have demonstrated their ability to stake and efficiently track NAV, with tight spreads and a functional creation-redemption arbitrage mechanism

Grayscale and NYSE Arca have filed to amend the ETHE and ETH Form 19b-4s to allow for staking in its ETH ETPs. Today, we seek to walk through factors we have considered and our proposed model.

[1]Metrics in this presentation are as of 2/28/25 and sourced from Bloomberg, L.P. unless noted otherwise
[2] Sum of AUM sourced from Bloomberg, L.P. as of 2/28/25 divided by Ethereum market capitalization sourced from CoinMarketCap as of 2/28/25 at 4:00 PM
[3]Measured by CoinDesk's Composite Ether Staking Rate (CESR) averaged over the month of February, 2025
[4]Based on monthly reward data from CoinDesk's Composite Ether Staking Rate (CESR) since launch and the assumption that the ETH ETPs would conservatively stake only 50% of assets

Agenda

1. Overview of ETH ETPs, Benefits of Staking in ETH ETPs, & Staking ETPs in Europe
2. ETH ETP Staking Considerations
3. Grayscale's Proposed Staking Arrangements
4. Conclusion

ETH ETPs Overview

US ETH ETPs have a nine-month track record of successfully functioning as regulated, transparent vehicles for ETH exposure

- US ETH ETPs are behaving as designed, evidenced by high correlation to underlying asset price and efficient primary and secondary market trading
  - US ETH ETPs stand at over $8 billion in value as of February 2025,[5] representing 3%[6] of the ETH market capitalization
  - The largest four ETH ETPs by AUM, accounting for 95% of the cohort, have observed:
    - Total gross daily primary market flows of $13 billion and total trading volume of $58 billion
    - Average absolute closing premium or discount of 22 basis points and average daily bid-ask spread of 11 basis points
  - ETH ETPs have gained $2.8 billion in net inflows since inception, despite their current restriction from staking
    - We believe this demand indicates preference for accessing crypto via a regulated ETP wrapper, even if it means muting the asset's full potential
    - Given the success of crypto ETPs and recent applications for ETPs referencing other digital assets, we believe the enthusiasm for exposure to digital assets in an ETP wrapper will persist and grow
- We seek to develop ETPs that track the value of their underlying asset(s) with precision; staking is a material part of the value proposition and ownership experience for proof-of-stake protocols, such as ETH

[5]Metrics in this presentation are as of 2/28/25 and sourced from Bloomberg, L.P. unless noted otherwise
[6] Sum of AUM sourced from Bloomberg, L.P. as of 2/28/25 divided by Ethereum market capitalization sourced from CoinMarketCap as of 2/28/25 at 4:00 PM

Benefits of Staking in ETH ETPs

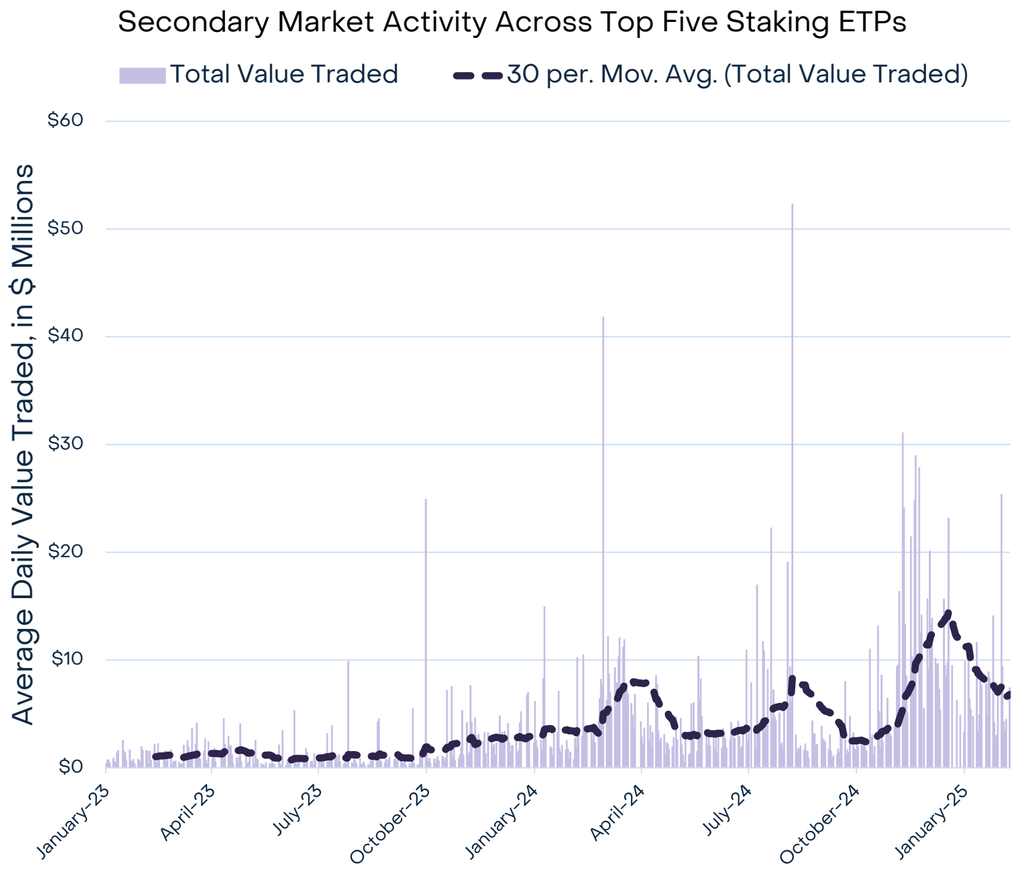
Responsible and regulated ETH ETP staking will unlock value for US ETH ETPs and enhance the security of the Ethereum protocol

- Through staking, US ETH ETPs will participate in validating transactions on the Ethereum network, contributing to the security and efficiency of the Ethereum blockchain, and in return, earn ETH rewards
  - ETH holders who do not stake – such as the US ETH ETPs today – are not eligible to receive staking rewards
  - ETH ETP staking would enable the operation of thousands of Ethereum validators, enhancing the security of the Ethereum network, which would bolster the strength of underlying Ethereum blockchain
  - Canada and Europe have embraced ETH ETP staking, potentially disadvantaging US investors
- ETH ETPs have foregone approximately $61 million as a result not being able to participate in staking from launch through February, 2025, not including daily compounding of rewards.[7] Instead, such rewards have gone to non-US ETH ETPs and other non-ETP stakers
  - Across the entire US ETH ETP cohort, at February month-end levels, a potential $5.5 billion in staking benefits will be foregone over the span of 10 years, when including the benefits of daily compounding of rewards[8]

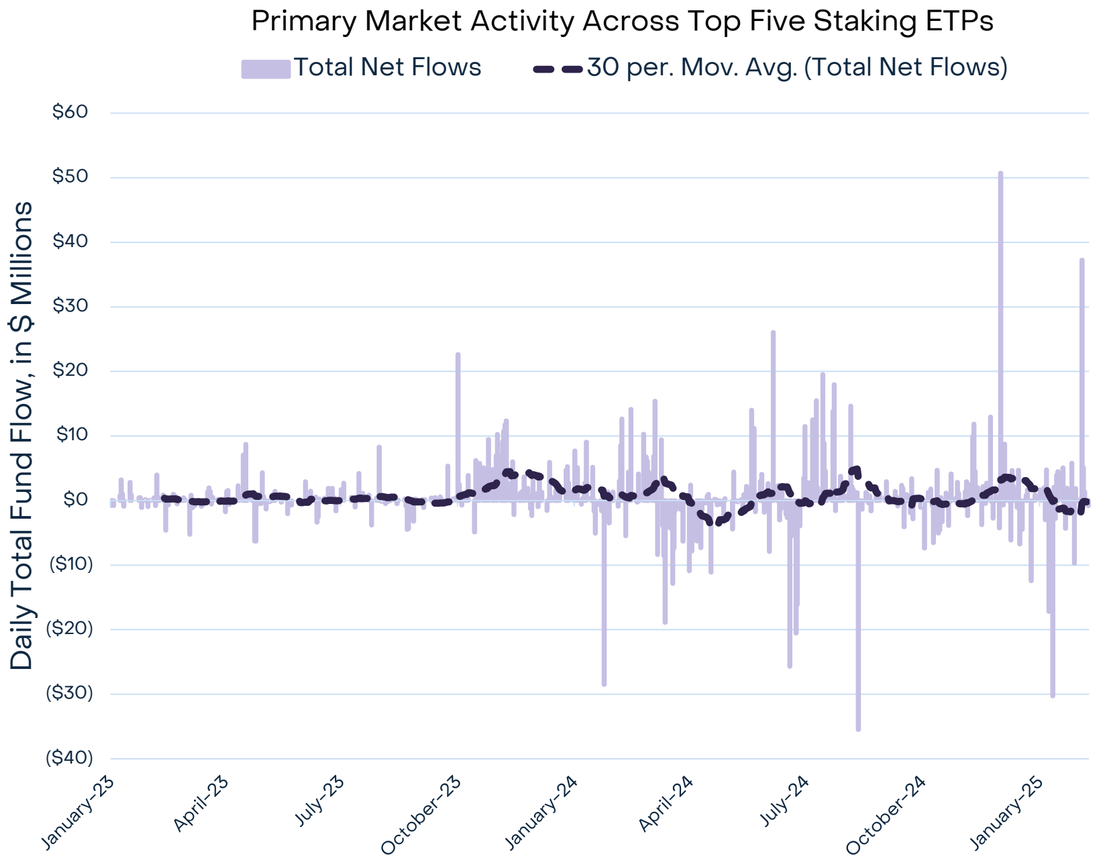
[7]Based on monthly reward data from CoinDesk's Composite Ether Staking Rate (CESR) since launch and the assumption that ETH ETPs would conservatively stake only 50% of assets
[8]Based on February 2025 month-end CESR rate and fund assets, daily reinvestment of rewards, and the assumption ETH ETPs would conservatively stake only 50% of assets

Staking ETPs in Europe: Volumes

Volumes on both the primary and secondary markets have increased over time for European ETPs employing staking, with 2025 representing all-time high average daily secondary market volume



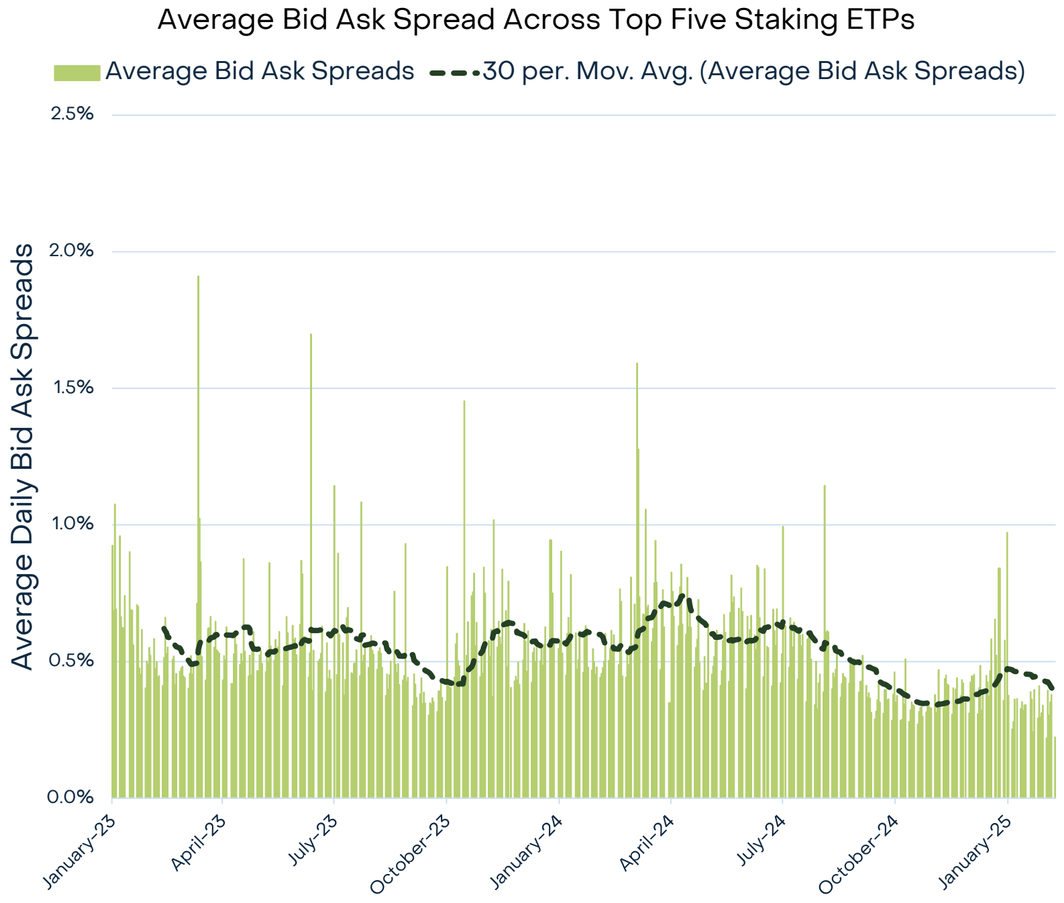
Source: Bloomberg, L.P. from 1/3/2023 through and inclusive of 2/10/2025.
Sum of the trading volume, in USD, across the Top 5 Staking ETPs in the prior table – ETPs are listed across Switzerland and Germany.
By AUM – ASOL, AETH, SLNC, ETHE, and VETH.
A 30-day moving average is offered to show trend over time.



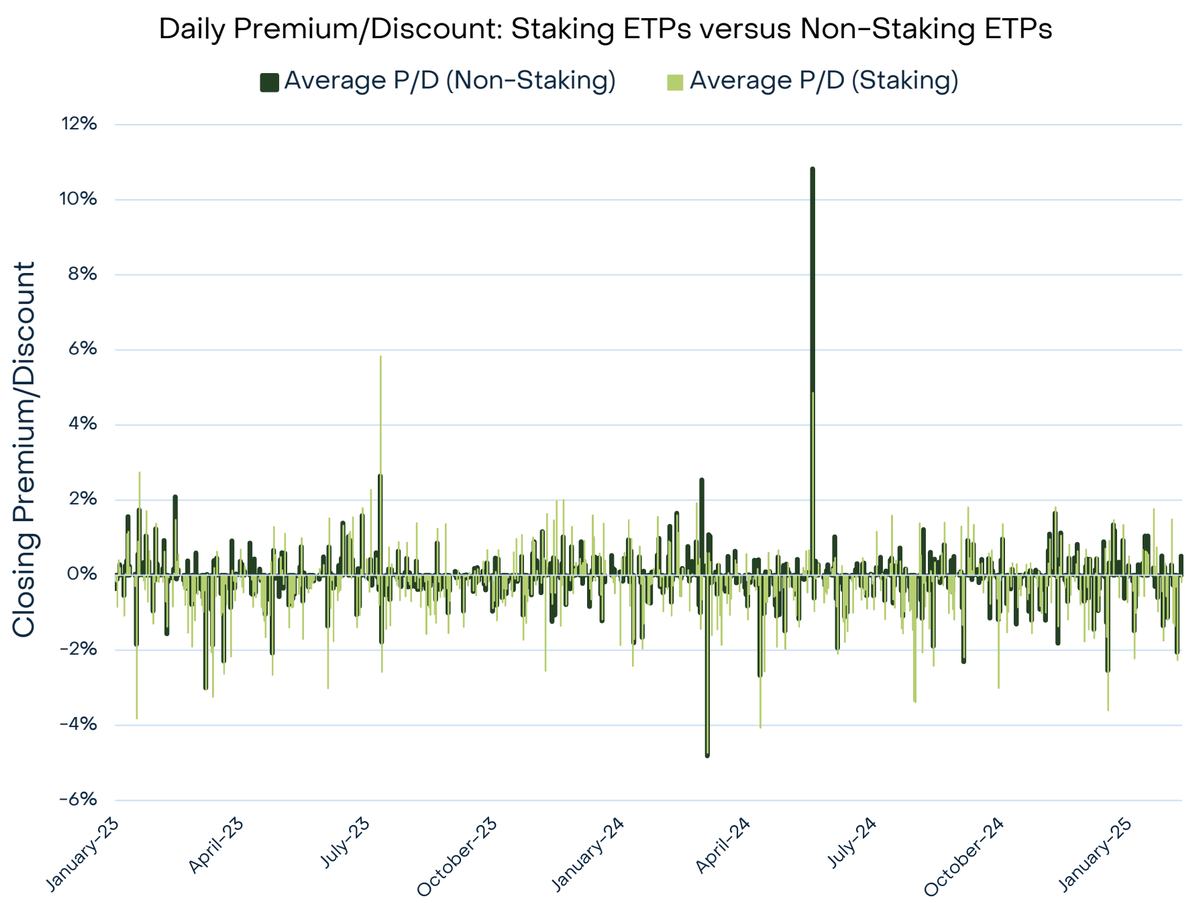
Source: Bloomberg, L.P. from 1/3/2023 through and inclusive of 2/10/2025.
Sum of the daily net flows, in USD, across the Top 5 Staking ETPs in the prior table – ETPs are listed across Switzerland and Germany.
By AUM – ASOL, AETH, SLNC, ETHE, and VETH.
A 30-day moving average is offered to show trend over time.

Staking ETPs in Europe: Trading Efficiency

During this time, trading costs have continued to trend lower. Premiums and discounts are generally similar for ETPs that stake and those that do not, suggesting staking does not impact the ETP's primary market efficiency



Source: Bloomberg, L.P. from 1/3/2023 through and inclusive of 2/10/2025.
Simple average of the average daily bid-ask spreads across the Top 5 Staking ETPs in the prior table – ETPs are listed across Switzerland and Germany.
By AUM – ASOL, AETH, SLNC, ETHE, and VETH.
A 30-day moving average is offered to show trend over time.

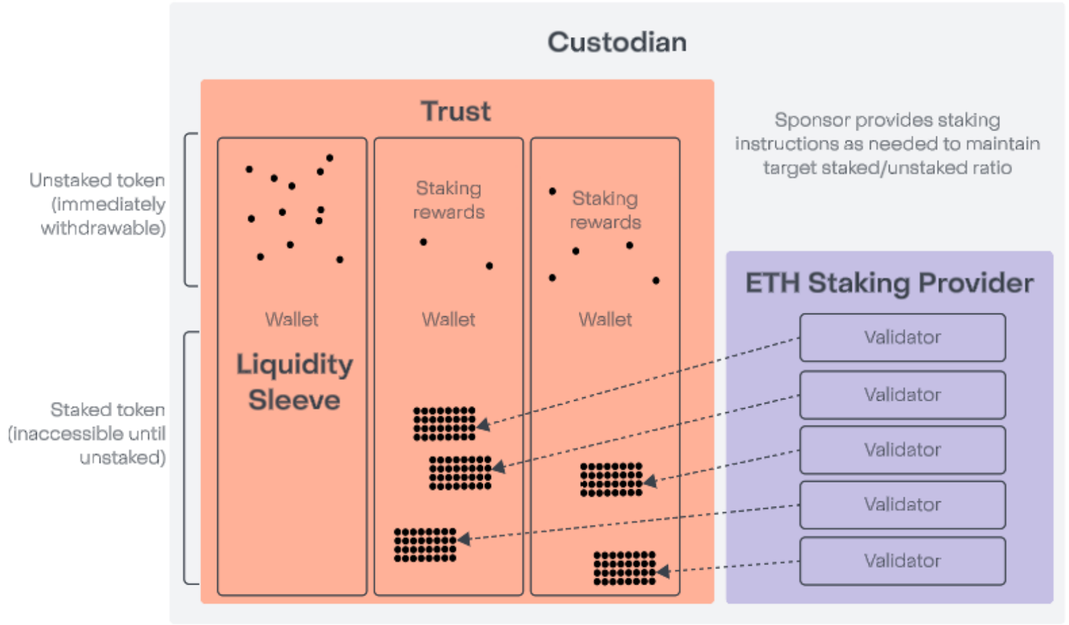


Source: Bloomberg, L.P. from 1/3/2023 through and inclusive of 2/10/2025.
Daily premiums and discounts (market price vs. NAV) across the Top 5 Staking ETPs in the prior table – ETPs are listed across Switzerland and Germany.
By AUM – ASOL, AETH, SLNC, ETHE, and VETH.
Daily premiums and discounts (market price vs. NAV), across the Top 5 Non-Staking ETPs in the prior table – ETPs are listed across Canada, Switzerland, and Germany.

ETH ETP Staking Considerations

The ETP settlement cycle and the time necessary to transfer staked ETH may not align; this must be considered in the ETP's operating model

- ETH is staked by engaging with an Ethereum protocol smart contract that designates a validator address to perform staking activities and a wallet address to send staking rewards
- ETH does not leave the Trust's wallet at the Custodian during this process; however, staked ETH is not transferrable until it becomes unstaked
    - When unstaking is initiated, there is transparency and predictability about how long the process will take
    - Total exit times can be 10 or more days. Staked tokens cannot be used to settle redemptions during this time
- Conversely, ETH ETP share redemptions generally settle T+1



ETH ETP Staking Considerations: Data-Driven Solutions

An issuer must balance maximizing staking rewards on behalf of its shareholders with ensuring adequate liquidity to maintain fair, orderly trading while maintaining the ETP's arbitrage mechanism

- The difference in settlement time between shares of the ETP and its underlying asset is not unique to ETH ETPs. Lessons from traditional ETPs that face the same liquidity mismatch inform a solution
- We can develop a model to support responsible staking management by analyzing:

1) Historical ETH ETP redemption data

   and

2) Ethereum protocol unstaking data

1. Historical ETH ETP Redemption Data

ETH ETP redemptions have generally been small-to-moderate, relative to fund AUM, secondary market activity, and underlying ETH price volatility[9]

- Excluding the first seven trading days to allow for post-launch/post-listing normalization, US ETPs of at least $1 billion in AUM experienced:
  - Maximum 10-day drawdown of 6.7%
  - Average redemption size of less than 3% of fund assets

The secondary market has demonstrated its ability to absorb the majority of investors' calls for liquidity

- The average rolling 10-day primary-to-secondary market ratio across US ETPs with $1 billion or more in AUM is <15%
- Meaning, across 10 days, for every $100 in secondary market activity, the top three ETH ETPs experienced only $15 in primary market activity, with the other $85 satisfied in the secondary market

The sharpest declines in the price of ETH have not corresponded with ETP redemptions

- Large price movements in the underlying ETH token align with spikes in ETH ETP secondary market volumes, however, this has not translated into meaningful outflows

We do not expect staking in the ETP to impact any of these behaviors

Based on the observations noted above, we believe it is unlikely that a significant portion of staked ETH in the ETP would need to be unstaked in order to meet redemption demand, even during times of high volatility in the secondary market and/or the underlying ETH token

[9] For funds with $1 billion or more in AUM, which, as of 2/28/25, represented 83% of US ETH ETP AUM

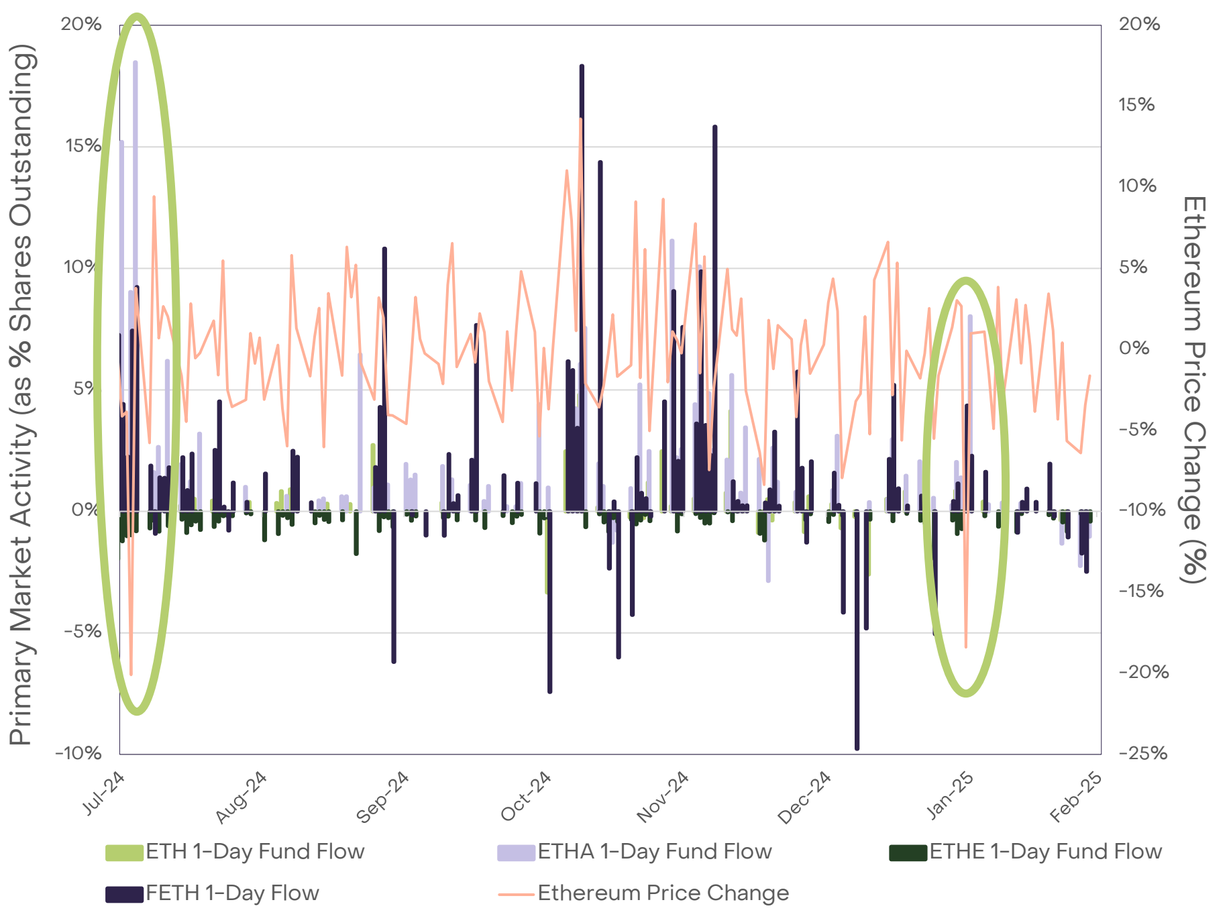
ETH Price Impact on ETH ETP Redemption Activity

Large ETH price moves have aligned with higher ETP volumes, however the sharpest ETH price declines have not corresponded with significant ETP outflows

Secondary Market Volume Versus Ethereum Price Change

Source: Bloomberg, L.P. from 7/23/2024 through and inclusive of 2/28/2025.
Daily turnover across the Top 4 US ETH ETPs by AUM: ETHA, ETHE, ETH, FETH.
The price of ETH, as measured by the 3:59:59 PM ET CoinDesk Ether Price Index (ETX).

Primary Market Activity versus Ethereum Price Change

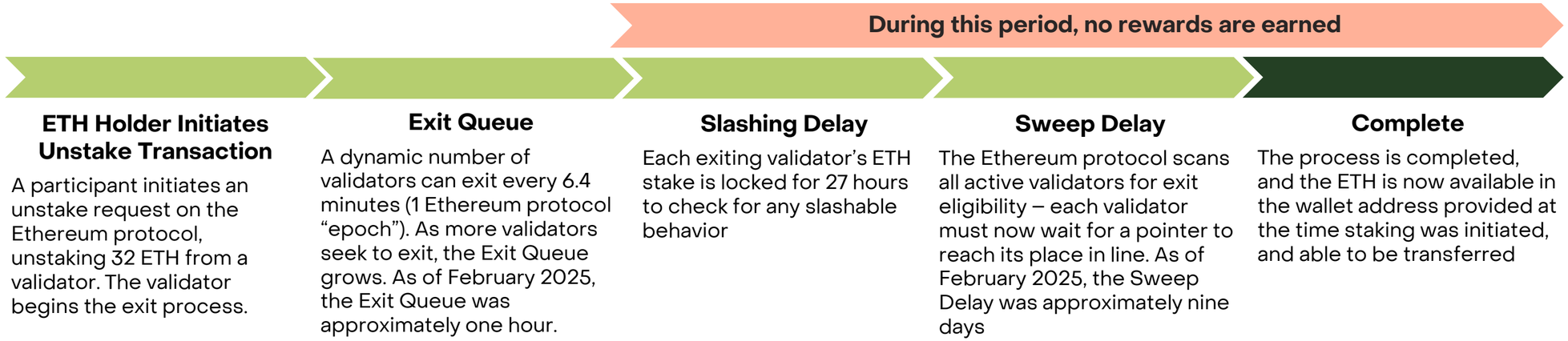


Source: Bloomberg, L.P. from 7/24/2024 through and inclusive of 2/28/2025.
Daily primary market activity, measured as a percentage of shares outstanding on prior day, across the Top 4 US ETH ETPs by AUM: ETHA, ETHE, ETH, FETH.
The price of ETH, as measured by the 3:59:59 PM ET CoinDesk Ether Price Index (ETX).

2. Historical Ethereum Validator Data

The unstaking process is made up of three components: 1) Exit Queue, 2) Slashing Delay, and 3) Sweep Delay (cumulatively, "ETH Unstaking Time")

- The current maximum total ETH Unstaking Time is approximately 10 days:

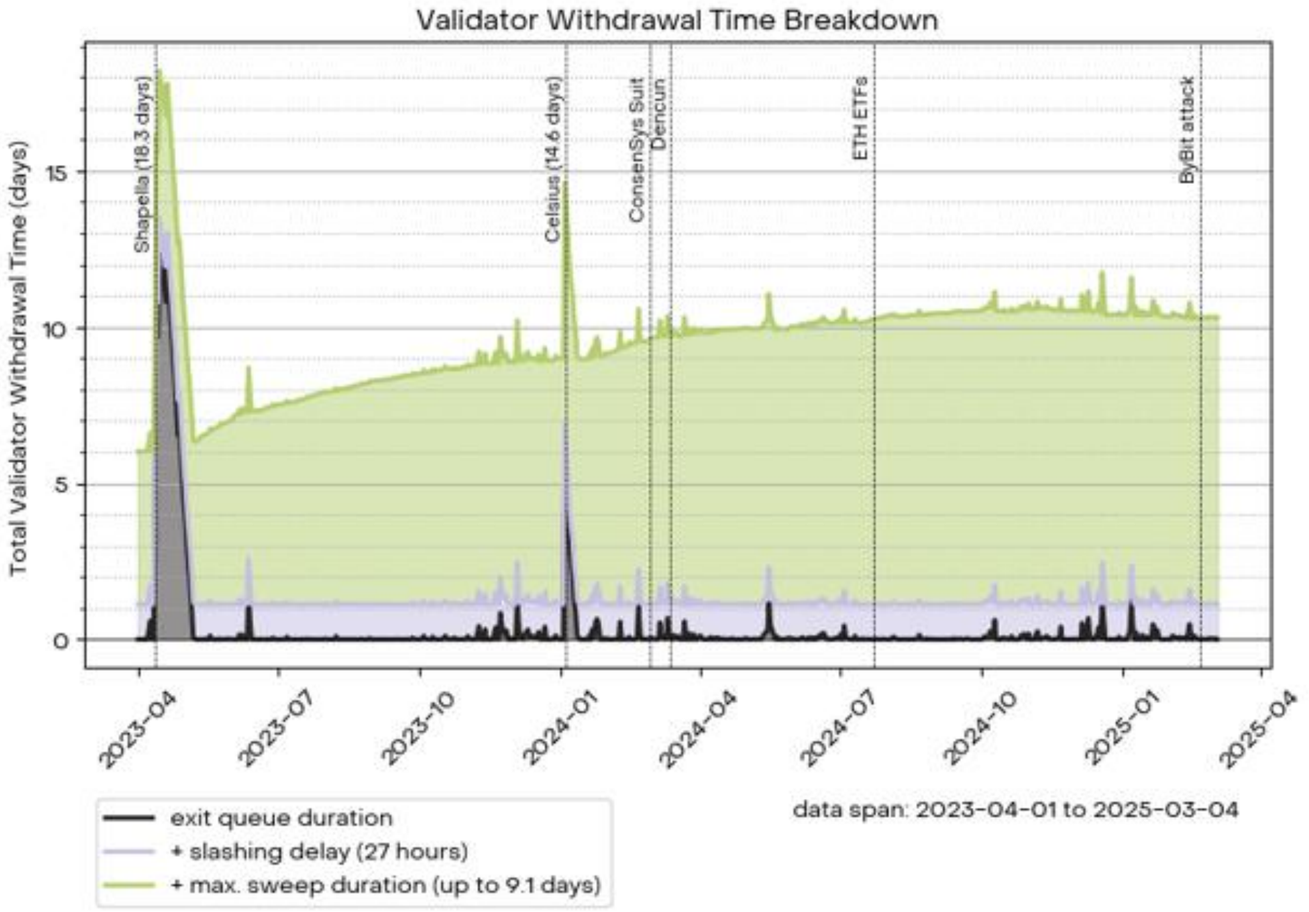


- ETH Unstaking Time under *normal conditions:*
  - The Exit Queue and Slashing Delay are relatively brief and static (currently ~28 hours as of February 2025)
  - Sweep Delay is bounded by the number of total active validators. As of February 2025, the sweep delay is ~9.1 days

2. Historical Ethereum Validator Data: Stress Testing

Significant exogenous events may cause many ETH holders to unstake, which could cause a backlog in the Exit Queue

- Since the enabling of ETH unstaking, there have been only eight instances where the Exit Queue exceeded one day
- There have only been two instances where the total ETH Unstaking Time has exceeded 14 days
- Other significant events, such as the approval of US spot ETH ETPs and the February 2025 ByBit attack did not result in extreme unstaking delays



[10] *See Appendix for comprehensive list*

Grayscale's Proposed Staking Arrangement: Overview

To engage in staking, each of Grayscale's ETH ETPs would enter into agreements with its Custodian(s) to stake through one or more third-party validator operators

To maximize staking rewards while ensuring each ETP has sufficient ETH liquidity to fulfill redemption requests, Grayscale would:

1. Maintain a "Liquidity Sleeve" of unstaked ETH in each ETP, from which there is no mismatch between ETP share settlement in primary market redemptions and ETH transfer time

2. Integrate short-term financing from its:

    a. Custodian(s)

    b. Liquidity Providers

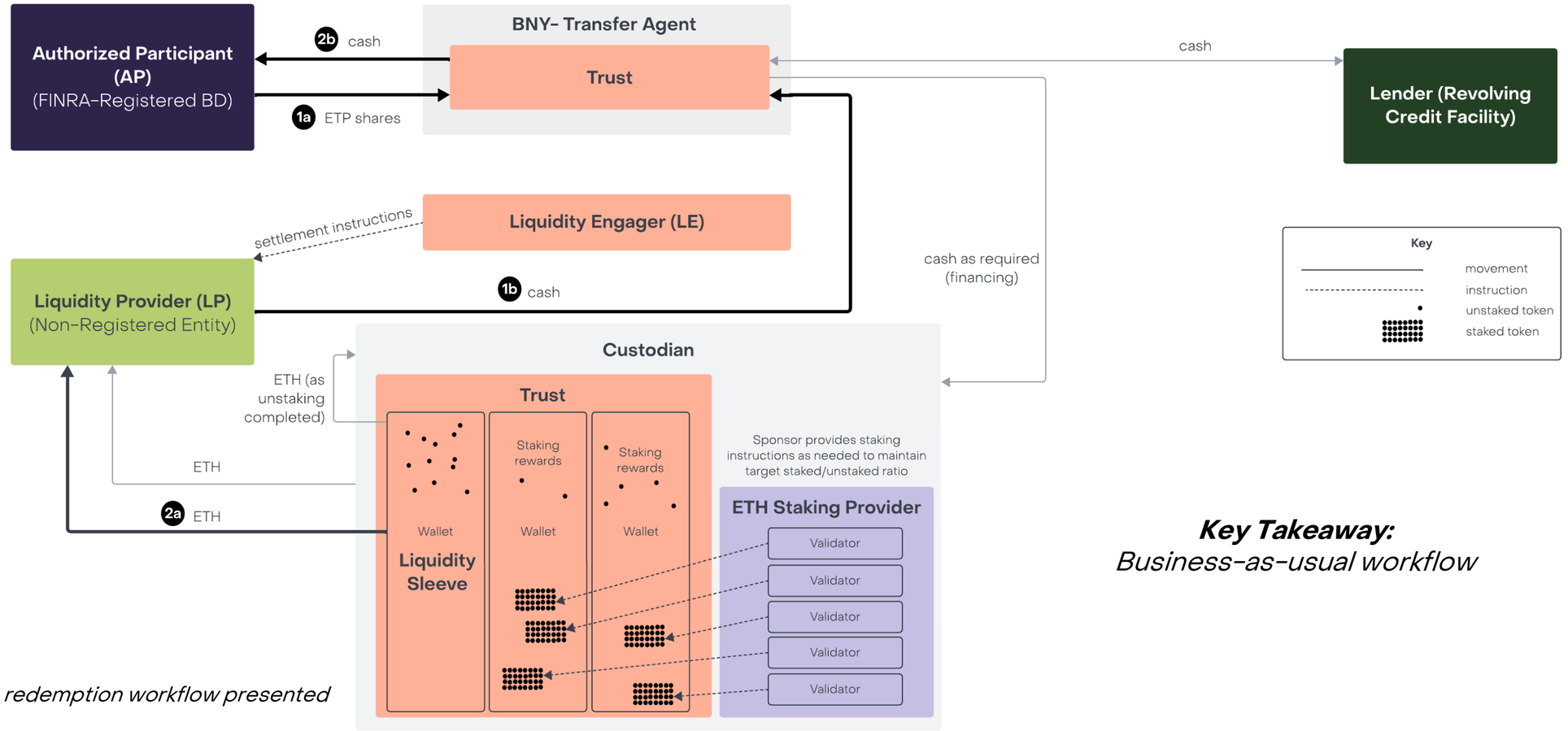
3. Implement a revolving credit facility for extreme scenarios

These mechanisms form a waterfall of approaches, which would be most effective when used collectively. However, if only the Liquidity Sleeve is permitted, Grayscale is confident it can responsibly manage each of its ETH ETPs and fulfill redemption requests.

1. Liquidity Sleeve

Redemption requests would be satisfied primarily through a portion of unstaked ETP assets (the "Liquidity Sleeve") within the Trust

- The size of the Liquidity Sleeve would be determined using factors such as (i) ETP primary and secondary market activity and (ii) ETH Unstaking Time
- The Liquidity Sleeve would be monitored and subject to adjustment from time to time



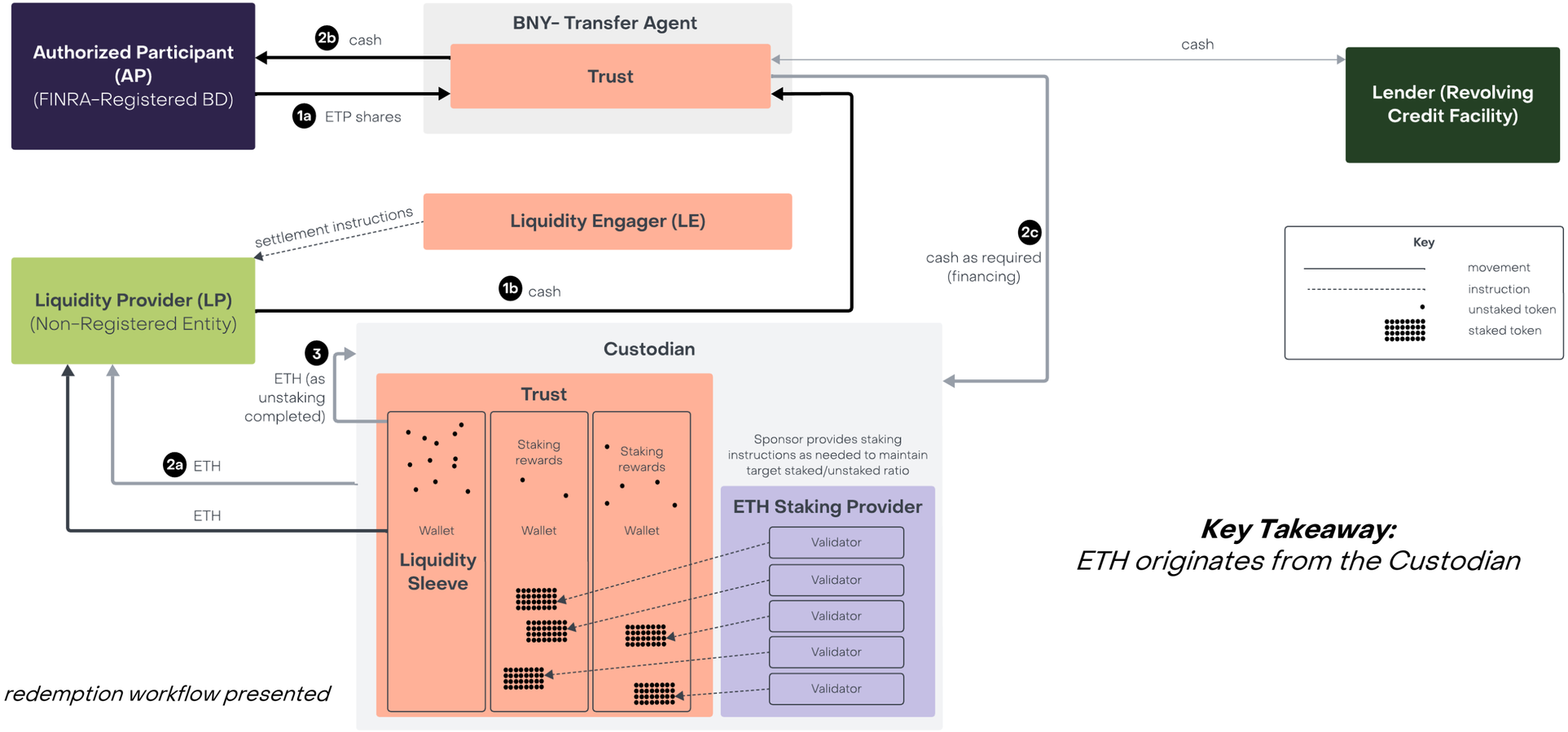
Key Takeaway:
Business-as-usual workflow

Settlement date redemption workflow presented

2a. Short-Term Financing via Custodian(s)

ETPs will enter into short-term financing arrangements with the Custodian(s) to provide ETH to the ETP for settlement of trades with LP, if necessary

- Custodian delivers proprietary unstaked token to LP on ETP's behalf while ETP's staked ETH undergoes unstaking process
- Custodian takes ownership of corresponding quantity of ETP's ETH as unstaking is completed to cover ETP's borrowed position
- AP pays a variable fee to ETP which includes ETP's short-term token borrowing costs



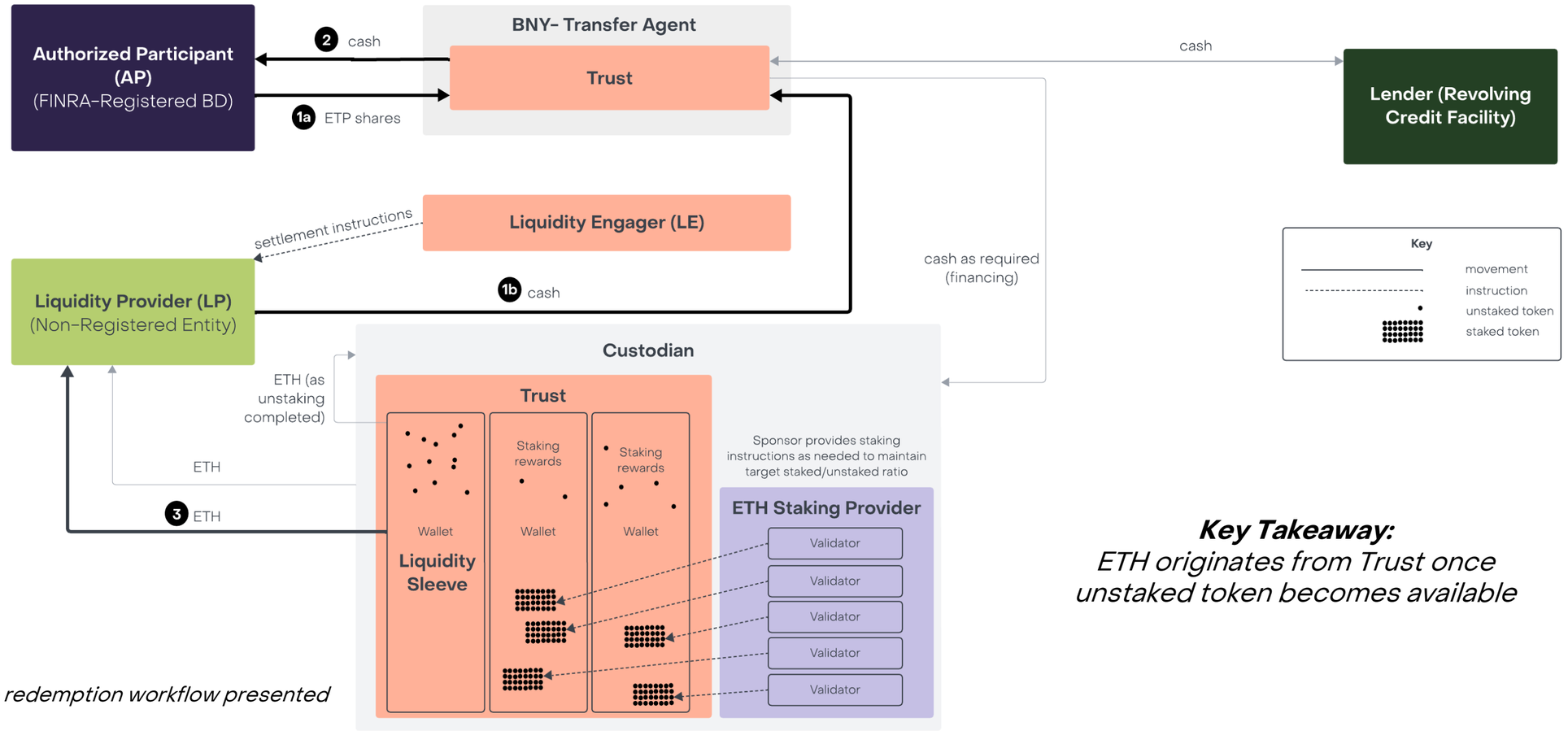
Key Takeaway:
ETH originates from the Custodian

Settlement date redemption workflow presented

2b. Short-Term Financing via LP

The ETPs will enter into short-term financing arrangements with the ETP's LPs. ETP delivers ETH to LP as soon as unstaked ETH becomes available, and LP delivers cash to the ETP under normal settlement timelines

- LP delivers cash to ETP on ETP settlement date, which is passed on to AP; ETH is delivered by the ETP to the LP as unstaked ETH becomes available
- Variable fee charged by LPs will include LP's financing costs during the ETH Unstaking Time. The ETP will pass this cost on to the AP



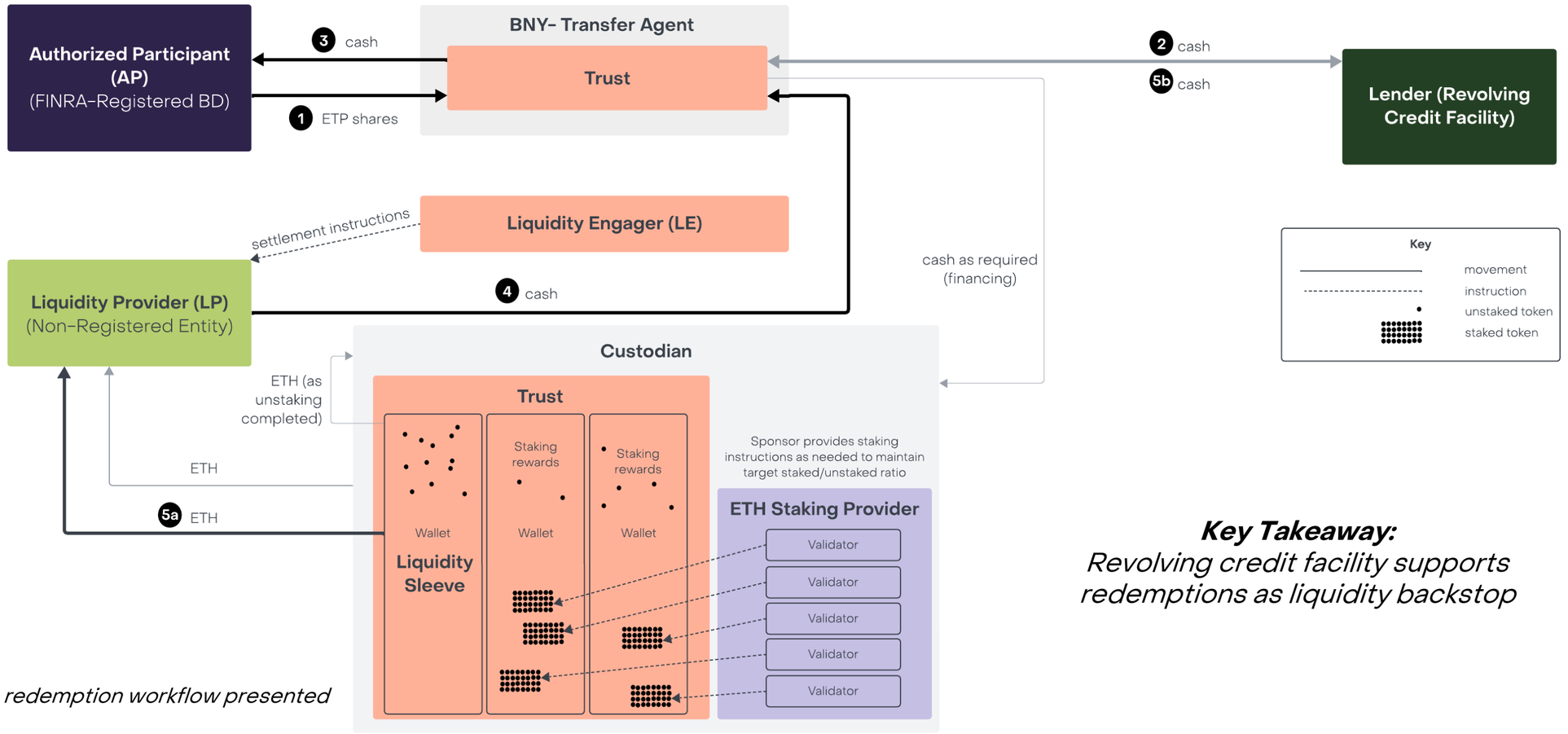
Key Takeaway:
ETH originates from Trust once unstaked token becomes available

Settlement date redemption workflow presented

3. Revolving Credit Facility

Lender provides ETP with on-demand cash backstop to satisfy AP redemption request under extreme unstaking conditions

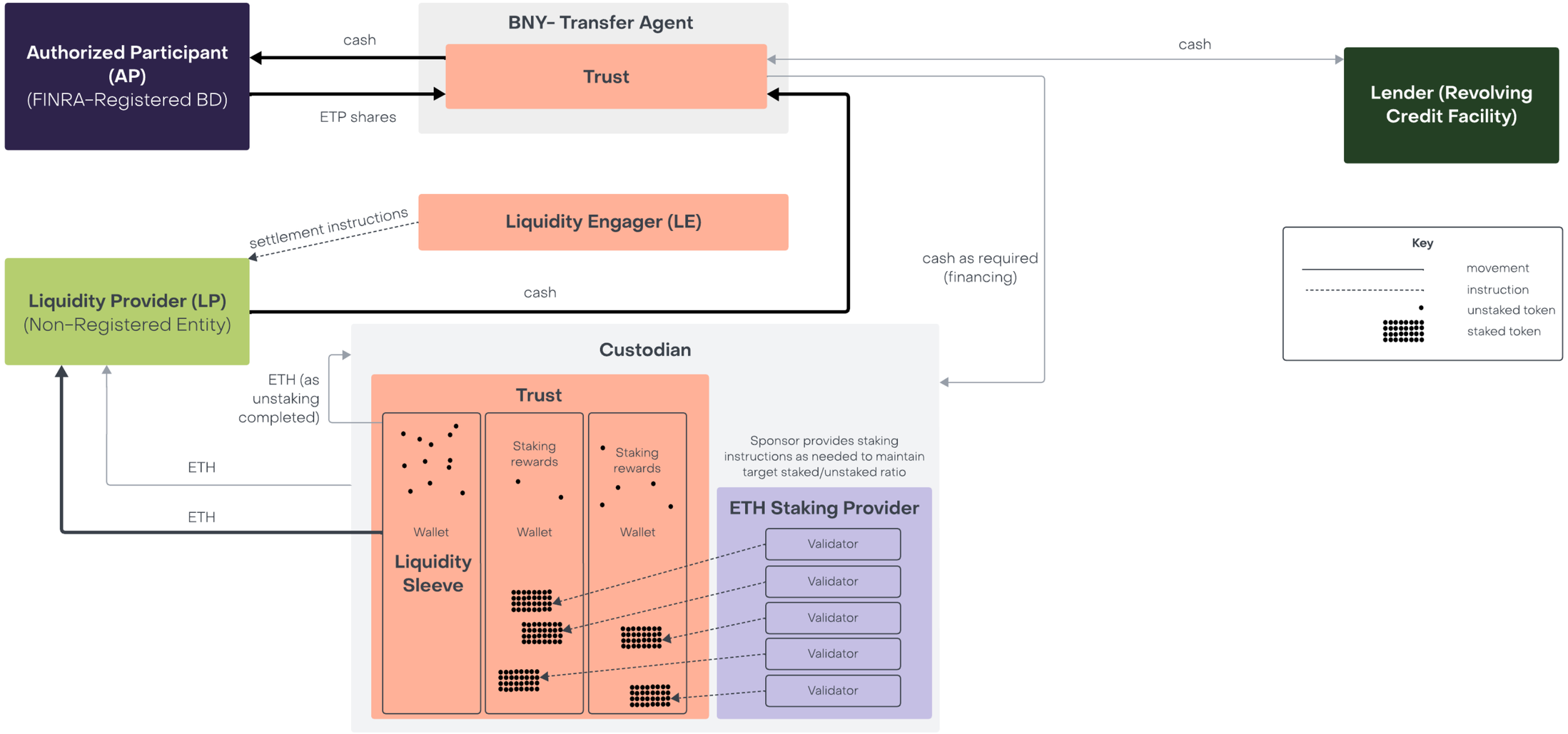
- Issuer draws on credit facility to raise cash necessary to honor redemption; AP is charged Trust's borrowing costs
- Issuer unstakes and/or sells token when market conditions permit and uses proceeds of token sale to pay down revolving credit facility



Key Takeaway:
Revolving credit facility supports redemptions as liquidity backstop

Settlement date redemption workflow presented

Grayscale's Proposed Staking Arrangement: Summary



Settlement date redemption workflow(s) presented

Conclusion

US Ethereum ETPs should be allowed to stake their ETH

- Over the past nine months, the ETP wrapper has demonstrated its ability to deliver exposure to spot ETH in a regulated, transparent, familiar investment vehicle
- Staking is an essential function of the Ethereum protocol
- Currently, spot ETH ETPs do not represent the underlying ETH completely, because they are not currently permitted to engage in staking
- By drawing on traditional finance analogues and experience managing ETPs facing similar liquidity challenges, coupled with Grayscale's connectivity and partnerships across the digital asset ecosystem, we can effectively and responsibly stake ETH in our ETH ETPs
- NYSE has submitted an amended Form 19b-4 application to request a rule change that would permit Grayscale's ETH ETPs to stake their ETH. As is the case with the NYSE rules supporting the current ETH ETPs, we believe our proposal is consistent with Section 19(b)of the Exchange Act and the rules and regulations thereunder

Appendix

Other Considerations of Staking in an ETP

Tax Considerations

- Grantor Trust Treatment – Each listed ETH ETP is taxed as a grantor trust for US federal income tax purposes. There are strong arguments available to issuers that the proposed staking arrangements will not prevent the Trust from qualifying as a grantor trust, but the IRS has not provided definitive guidance to date
- Certain proposed solutions for liquidity management raise grantor trust considerations (such as acquiring financing or holding cash to facilitate APs' creation and redemption efforts)

Slashing & Security Risks

- Operational Risks – Running multiple validators at scale (currently, one per 32 ETH) requires robust hardware infrastructure, and expertise to avoid downtime or performance degradation
    - The Custodian, on behalf of the ETPs, will engage Staking Providers to operate Ethereum validators
    - A Staking Provider is a third-party vendor with the hardware and experience necessary to facilitate staking
- Slashing Penalties – If a validator misbehaves or goes offline, staked assets can be slashed, potentially affecting ETP performance
    - Ethereum has only seen 0.04% of validators slashed
    - The Grayscale ETPs' Custodian, Coinbase Custody, has never lost assets due to a slashing event

Historical Unstaking Times: Significant Events

Date	Event	Description	Total Unstaking Time (Days)
4/12/23	Shapella Upgrade	Unstaking on Ethereum is enabled for the first time via Shapella upgrade	18.4
1/5/24	Celsius Bankruptcy	Celsius issues ETH to creditors as part of its bankruptcy resolution. >500,000 ETH is unstaked	14.6
2/28/24	ConsenSys Complaint	SEC files charges against ConsenSys for staking features in Metamask wallet	10.7
7/23/24	ETH ETP Approval	ETH ETPs approved and begin trading	10.3
2/21/25	ByBit attack	~$1.46B was transferred through Ethereum, allegedly by North Korea, related to Bybit attack	10.3

A Brief Note on the Ethereum Protocol's Pectra Upgrade

- The Ethereum protocol is expected to undergo an upgrade in Q2 2025, known as "Pectra"
- Pectra is expected to increase the maximum effective balance of validators from 32 ETH to 2,048 ETH, enabling more efficient staking and validator consolidation
- Pectra will allow for auto-compounding of ETH rewards
- We do not expect Pectra to impede ETH ETPs' ability to stake