

maintained. Thus, the Commission believes that the proposed rule change would enable ICE Clear Europe to maintain a sound risk management framework for comprehensively managing its model risk.

Therefore, the Commission finds that the proposed rule change is consistent with Rule 17Ad-22(e)(3).<sup>35</sup>

*D. Consistency With Rules 17Ad-22(e)(4)(vii), (e)(6)(vii), and (e)(7)(vii)*

Rule 17Ad-22(e)(4)(vii) requires that ICE Clear Europe establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by performing a model validation for its credit risk models not less than annually or more frequently as may be required by its risk management framework.<sup>36</sup> Rule 17Ad-22(e)(6)(vii) requires that ICE Clear Europe establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, among other things, requires a model validation for its margin system and related models to be performed not less than annually, or more frequently as may be contemplated by its risk management framework.<sup>37</sup> Rule 17Ad-22(e)(7)(vii) requires that ICE Clear Europe establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by ICE Clear Europe, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, among other things, performing a model validation of its liquidity risk models not less than annually or more frequently as may be contemplated by its risk management framework.<sup>38</sup>

As discussed above, the MRGF would specify the frequency of model validations. Specifically, the MRGF would provide that model validations shall comply with applicable regulatory requirements, in particular in regards to annual validation cycles, and that model performance assessments shall also be conducted on a periodic basis, with cycles no greater than one year.

The Commission believes that these aspects of the MRGF would help ensure that ICE Clear Europe complies with the aspects of Rules 17Ad-22(e)(4)(vii), (e)(6)(vii), and (e)(7)(vii)<sup>39</sup> that require annual model validations by providing that the frequency of model validations shall comply with applicable regulatory requirements, in particular in regards to annual validation cycles, and that model performance assessments shall also be conducted on cycles no greater than one year.

Therefore, the Commission finds that the proposed rule change is consistent with Rules 17Ad-22(e)(4)(vii), (e)(6)(vii), and (e)(7)(vii).<sup>40</sup>

#### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Act<sup>41</sup> and Rules 17Ad-22(e)(2)(i) and (v), (e)(3), (e)(4)(vii), (e)(6)(vii), and (e)(7)(vii) thereunder.<sup>42</sup>

*It is therefore ordered* pursuant to Section 19(b)(2) of the Act<sup>43</sup> that the proposed rule change, as modified by Amendment No. 1 (SR-ICEEU-2018-024), be, and hereby is, approved.<sup>44</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>45</sup>

**Eduardo A. Aleman,**

*Deputy Secretary.*

[FR Doc. 2019-02733 Filed 2-19-19; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-85119; File No. SR-CboeBZX-2019-004]

### Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of Proposed Rule Change To List and Trade Shares of SolidX Bitcoin Shares Issued by the VanEck SolidX Bitcoin Trust, Under BZX Rule 14.11(e)(4), Commodity-Based Trust Shares

February 13, 2019.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 30, 2019, Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes a rule change to list and trade shares of SolidX Bitcoin Shares (the “Fund”) issued by the VanEck SolidX Bitcoin Trust (the “Trust”), under BZX Rule 14.11(e)(4), Commodity-Based Trust Shares. The shares of the Trust are referred to herein as the “Shares.”

The text of the proposed rule change is also available on the Exchange’s website ([http://markets.cboe.com/us/equities/regulation/rule\\_filings/bzx/](http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/)), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>39</sup> 17 CFR 240.17Ad-22(e)(4)(vii), (e)(6)(vii), and (e)(7)(vii).

<sup>40</sup> 17 CFR 240.17Ad-22(e)(4)(vii), (e)(6)(vii), and (e)(7)(vii).

<sup>41</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>42</sup> 17 CFR 240.17Ad-22(e)(2)(i) and (v), (e)(3), (e)(4)(vii), (e)(6)(vii), and (e)(7)(vii).

<sup>43</sup> 15 U.S.C. 78s(b)(2).

<sup>44</sup> In approving the proposed rule change, the Commission considered the proposal’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>45</sup> 17 CFR 200.30-3(a)(12).

<sup>35</sup> 17 CFR 240.17Ad-22(e)(3).

<sup>36</sup> 17 CFR 240.17Ad-22(e)(4)(vii).

<sup>37</sup> 17 CFR 240.17Ad-22(e)(6)(vii).

<sup>38</sup> 17 CFR 240.17Ad-22(e)(7)(vii).

*A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

1. Purpose

The Exchange proposes to list and trade the Shares under BZX Rule 14.11(e)(4),<sup>3</sup> which governs the listing and trading of Commodity-Based Trust Shares on the Exchange.<sup>4</sup> SolidX Management LLC is the sponsor of the Trust ("Sponsor"). The Trust will be responsible for custody of the Trust's bitcoin. SolidX Management LLC is a wholly-owned subsidiary of SolidX Partners Inc. Delaware Trust Company is the trustee ("Trustee"). The Bank of New York Mellon will be the administrator ("Administrator"), transfer agent ("Transfer Agent") and the custodian, with respect to cash, ("Cash Custodian") of the Trust. Foreside Fund Services, LLC will be the marketing agent ("Marketing Agent") in connection with the creation and redemption of "Baskets"<sup>5</sup> of Shares. Van Eck Securities Corporation ("VanEck") provides assistance in the marketing of the Shares.

The Trust was formed as a Delaware statutory trust on September 15, 2016 and is operated as a grantor trust for U.S. federal tax purposes. The Trust has no fixed termination date.

According to the Registration Statement, each Share will represent a fractional undivided beneficial interest in the Trust's net assets. The Trust's assets will consist of bitcoin<sup>6</sup> held by the Trust utilizing a secure process as described below in "bitcoin Security and Storage for the Trust". The Trust will not normally hold cash or any other assets, but may hold a very limited amount of cash in connection with the

<sup>3</sup> The Commission approved BZX Rule 14.11(e)(4) in Securities Exchange Act Release No. 65225 (August 30, 2011), 76 FR 55148 (September 6, 2011) (SR-BATS-2011-018).

<sup>4</sup> All statements and representations made in this filing regarding (a) the description of the portfolio, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange rules and surveillance procedures shall constitute continued listing requirements for listing the Shares on the Exchange.

<sup>5</sup> The Trust will issue and redeem "Baskets", each equal to a block of 5 Shares, only to "Authorized Participants". See "Creation and Redemption of Shares" below.

<sup>6</sup> A "bitcoin" is an asset that can be transferred among parties via the internet, but without the use of a central administrator or clearing agency ("bitcoin"). The asset, bitcoin, is generally written with a lower case "b". The asset, bitcoin, is differentiated from the computers and software (or the protocol) involved in the transfer of bitcoin among users, which constitute the "Bitcoin Network". The asset, bitcoin, is the intrinsically linked unit of account that exists within the Bitcoin Network. See "bitcoin and the Bitcoin Industry" below.

creation and redemption of Baskets and to pay Trust expenses, as described below.

According to the Registration Statement, the Trust will invest in bitcoin only. The activities of the Trust are limited to: (1) Issuing Baskets in exchange for the cash and/or bitcoin deposited with the Cash Custodian or Trust, respectively, as consideration; (2) purchasing bitcoin from various exchanges and in OTC transactions; (3) selling bitcoin (or transferring bitcoin, at the Sponsor's discretion, to pay the Management Fee) as necessary to cover the Sponsor's Management Fee, bitcoin Insurance Fee, Trust principals' and employees' salaries, expenses associated with securing the Trust's bitcoin and Trust expenses not assumed by the Sponsor and other liabilities; (4) selling bitcoin as necessary in connection with redemptions; (5) delivering cash and/or bitcoin in exchange for Baskets surrendered for redemption; (6) maintaining insurance coverage for the bitcoin held by the Trust; and (7) securing the bitcoin held by the Trust.

According to the Registration Statement, the Trust is neither an investment company registered under the Investment Company Act of 1940, as amended,<sup>7</sup> nor a commodity pool for purposes of the Commodity Exchange Act ("CEA"),<sup>8</sup> and neither the Trust nor the Sponsor is subject to regulation as a commodity pool operator or a commodity trading adviser in connection with the Shares.

Investment Objective

According to the Registration Statement and as further described below, the investment objective of the Trust is for the Shares to reflect the performance of the price of bitcoin, less the expenses of the Trust's operations. The Trust intends to achieve this objective by investing substantially all of its assets in bitcoin traded primarily in the over-the-counter ("OTC") markets, though the Trust may also invest in bitcoin traded on domestic and international bitcoin exchanges, depending on liquidity and otherwise at the Trust's discretion. The Trust is not actively managed. It does not engage in any activities designed to obtain a profit from, or to ameliorate losses caused by, changes in the price of bitcoin.

Subject to certain requirements and conditions described below and in the Registration Statement, the Trust, under normal market conditions,<sup>9</sup> will use

<sup>7</sup> 15 U.S.C. 80a-1.

<sup>8</sup> 17 U.S.C. 1.

<sup>9</sup> Consistent with the definition in Rule 14.11(i)(3)(E), the term "Normal Market

available offering proceeds to purchase bitcoin primarily in the OTC markets, without being leveraged or exceeding relevant position limits.

Trust Issued Receipts—Standard of Review

Section 6(b)(5) and the Applicable Standards

Commodity-Based Trust Shares, as described in Exchange Rule 14.11(e)(4), are a type of Trust Issued Receipt as laid out under Rule 14.11(f). The Commission has approved numerous series of Trust Issued Receipts, including Commodity-Based Trust Shares, to be listed on U.S. national securities exchanges. In order for any proposed rule change from an exchange to be approved, the Commission must determine that, among other things, the proposal is consistent with the requirements of Section 6(b)(5) of the Act and, as is applicable here, the requirement that a national securities exchange's rules are designed to prevent fraudulent and manipulative acts and practices. In its recent analysis of commodity-based exchange-traded products ("Commodity ETPs"), the Commission has focused on this particular language of Section 6(b)(5) of the Act and states that a proposed rule change must offer record evidence to demonstrate that underlying markets are "regulated markets" "of significant size." The Commission has interpreted the terms "significant market" and "market of significant size" to include a market (or group of markets) as to which: (a) There is a reasonable likelihood that a person attempting to manipulate the ETP would also have to trade on that market to manipulate the ETP, so that a surveillance-sharing agreement would assist the listing exchange in detecting and deterring misconduct; and (b) it is unlikely that trading in the ETP would be the predominant influence on prices in that market.

Cboe believes that, based on previous application of the standard, the market for Bitcoin Futures<sup>10</sup> is a regulated

Conditions" includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues causing dissemination of inaccurate market information or system failures; or force majeure type events such as natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

<sup>10</sup> Both Cboe Futures Exchange, Inc. ("CFE") and Chicago Mercantile Exchange, Inc. ("CME"), both members of the Intermarket Surveillance Group, have offered contracts for bitcoin futures products since 2017. While the CFE bitcoin futures contracts and the CME bitcoin futures contracts (collectively, the "Bitcoin Futures") differ in certain of their

market of significant size with which the Exchange has in place comprehensive surveillance sharing agreements and, thus, the Commission should approve this proposal.<sup>11</sup> In addition, the Exchange also believes that there are sufficient other means to prevent fraudulent and manipulative acts and practices in the Shares, as was presented as an alternate means to demonstrate that a proposal is consistent with Section 6(b)(5) of the Act in the order disapproving SR-CboeBZX-2018-001 (the “GraniteShares Disapproval Order”).<sup>12</sup> Specifically, the Exchange believes that the collective effect of the following factors are sufficient to prevent fraudulent and manipulative acts and practices in the Shares:<sup>13</sup> (i) The regulated nature of

implementation details, Bitcoin Futures generally trade and settle like any other cash-settled commodity futures contracts.

<sup>11</sup> As the Exchange has stated in a number of other public documents, it continues to believe that bitcoin itself is particularly resistant to price manipulation. The geographically diverse and continuous nature of bitcoin trading makes it difficult and prohibitively costly to manipulate the price of bitcoin and, in many instances, the bitcoin market is generally less susceptible to manipulation than the equity, fixed income, and commodity futures markets. There are a number of reasons this is the case, including that there is not inside information about revenue, earnings, corporate activities, or sources of supply, making it particularly difficult to disseminate false or misleading information about bitcoin in order to manipulate; manipulation of the price on any single venue would require manipulation of the global bitcoin price in order to be effective; a substantial over-the-counter market provides liquidity and shock-absorbing capacity; bitcoin’s 24/7/365 nature provides constant arbitrage opportunities across all trading venues; and it is unlikely that any one actor could obtain a dominant market share.

Further, bitcoin is arguably less susceptible to manipulation than other commodities that underlie ETPs; there may be inside information relating to the supply of the physical commodity such as the discovery of new sources of supply or significant disruptions at mining facilities that supply the commodity that simply are inapplicable as it relates to bitcoin. Further, the Exchange believes that the fragmentation across bitcoin platforms, the relatively slow speed of transactions, and the capital necessary to maintain a significant presence on each trading platform make manipulation of bitcoin prices through continuous trading activity unlikely. Moreover, the linkage between the bitcoin markets and the presence of arbitrageurs in those markets means that the manipulation of the price of bitcoin price on any single venue would require manipulation of the global bitcoin price in order to be effective. Arbitrageurs must have funds distributed across multiple trading platforms in order to take advantage of temporary price dislocations, thereby making it unlikely that there will be strong concentration of funds on any particular bitcoin exchange or OTC platform. As a result, the potential for manipulation on a trading platform would require overcoming the liquidity supply of such arbitrageurs who are effectively eliminating any cross-market pricing differences.

<sup>12</sup> See Securities Exchange Act Release No. 83913 (August 22, 2018), 83 FR 43923 (August 28, 2018) at 3.

<sup>13</sup> While not directly related to the issue of manipulation, the Exchange also notes that the

each of the firms that make up the MVIS® Bitcoin OTC Index (the index that is used to price the Shares, as further described below) (the “MVBTCO”);<sup>14</sup> (ii) the notional volume of trading<sup>15</sup> and liquidity<sup>16</sup> available on the OTC Trading Desks; (iii) the principal to principal nature of the OTC Trading Desks; and (iv) in addition to its standard surveillance procedures, the Exchange will have in place a comprehensive surveillance sharing agreement with each of the OTC Trading Desks prior to the Shares listing on the Exchange.<sup>17</sup> Each of these points is further discussed below.

#### Precedent—Dry Bulk Shipping Futures

Looking at the limited instances in which the Commission has included in the record for an approval order an affirmative statement about a “significant regulated market” provides some insight, but very little specificity as to how the standard is applied to proposals that are approved. Of particular interest is the approval order for the Breakwave Dry Bulk Shipping ETF (the “Shipping Futures ETF”) which is designed to provide exposure to the daily change in the price of dry bulk freight futures: An ETP that provides exposure to a unique

Sponsor expects that the Shares will be purchased primarily by institutional and other substantial investors (such as hedge funds, family offices, private wealth managers and high-net-worth individuals), which will provide additional liquidity and transparency to the bitcoin market in a regulated vehicle such as the Trust. With an estimated initial per-share price equivalent to 25 bitcoin, the Shares will be cost-prohibitive for smaller retail investors while allowing larger and generally more sophisticated institutional investors to gain exposure to the price of bitcoin through a regulated product while eliminating the complications and reducing the risk associated with buying and holding bitcoin.

<sup>14</sup> As further described below, Genesis Global Trading, Inc. (“Genesis”) is a FINRA registered broker-dealer, Cumberland DRW LLC (“Cumberland”) is an affiliate of DRW Execution Services, LLC, a FINRA registered broker-dealer, and Circle Financial (“Circle”) is awaiting FINRA approval of its purchase of SI Securities, LLC, a FINRA registered broker-dealer. For purposes of this filing, Genesis, Cumberland, and Circle are collectively referred to as the “OTC Trading Desks.”

<sup>15</sup> The Sponsor has indicated that there are tens of millions to hundreds of millions of dollars of bitcoin traded on the OTC Trading Desks on a daily basis.

<sup>16</sup> Each constituent firm offers and will continue to offer firm, executable quotes of at least \$250,000 depth on both the bid and ask at all times.

<sup>17</sup> The Trust maintains crime, excess crime and excess vault risk insurance coverage underwritten by various insurance carriers that will cover the entirety of the Trust’s bitcoin holdings. While the Trust remains fully confident in its system for securing its bitcoin, insurance coverage of all of the Trust’s bitcoin holdings eliminates exposure to the risk of loss to investors through fraud or theft, which in turn eliminates most of the custodial issues associated with a series of Commodity-Based Trust Shares based on bitcoin.

underlying instrument with no direct precedent for approval. Looking to the language in the approval order for the Shipping Futures ETF, the order states: “[t]he Commission notes that the Exchange has represented that the Freight Futures trade on well-established, regulated markets that are members of the ISG. The Commission finds that the Exchange will be able to share surveillance information with a significant regulated market for trading futures on dry bulk freight.”<sup>18</sup> The Approval Order includes no additional analysis that specifically discusses whether the markets with which the listing exchange will be able to share surveillance information related to freight futures, which the Shipping Futures ETF will invest substantially all of its assets in,<sup>19</sup> are significant regulated markets. Importantly, the Approval Order included no mention of the listing exchange establishing the existence of other means to sufficiently prevent fraudulent and manipulative acts and practices.

Looking deeper, the Approval Order also states that:

Freight Futures are financial instruments that trade off-exchange but then are cleared through an exchange. Market participants communicate their buy or sell orders through a network of execution brokers mainly through phone or instant messaging platforms with specific trading instructions related to price, size, and type of order. The execution broker receives such order and then attempts to match it with a counterparty. Once there is a match and both parties confirm the transaction, the execution broker submits the transaction details including trade specifics, counterparty details and accounts to the relevant exchange for clearing, thus completing a cleared block futures transaction. The exchange will then require the relevant member or FCM to submit the necessary margin to support the position similar to other futures clearing and margin requirements.<sup>20</sup>

That is to say, freight futures trades occur off-exchange and are coordinated through a broker network, mostly through phone and instant messaging, and it is only post-trade that any information is shared with a clearing exchange for the contracts to be cleared and for margin requirements to be communicated.

The Approval Order also notes that the liquidity in freight futures has generally been constant over the last five years and open interest represents more than \$3 billion.<sup>21</sup> The Approval

<sup>18</sup> See Securities Exchange Act Release No. 82390 (December 22, 2017), 82 FR 61625 (December 28, 2017) (the “Approval Order”) at 30.

<sup>19</sup> *Id.* at 5.

<sup>20</sup> See Approval Order at 12.

<sup>21</sup> *Id.* at 14.

Order didn't include any statistics about the daily market-wide trading volume, but the sponsor of the Shipping Futures ETF estimates a daily volume of \$50–100 million in freight futures.<sup>22</sup>

While the Approval Order did include some background about the dry bulk freight industry, dry bulk freight charter rates, and the indexes designed to track those rates, there is no discussion or additional facts included that can be used to infer that the market for freight futures is a significant market. There was also no discussion about whether the capacity in which exchanges participate in the freight futures market constituted a regulated market. Because the Approval Order includes no specific mention of the factors used to determine that the freight futures market is significant and regulated, the best reference is to look to the most obvious factors and where the Commission retroactively provided guidance as to the basis for determining that the market was a significant, regulated market.<sup>23</sup>

First, it's arguable based on the description in the Approval Order that the exchanges' role in the freight futures ecosystem is not even that of a "market," but rather as a trade reporting facility and clearing venue. The Commission obviously determined that even the limited capacity in which the exchanges are involved in freight futures constituted a "market," but comparing that capacity where message and phone based trades are reported after the fact to an exchange to the fully transparent order books in Bitcoin Futures, the regulatory role and the information available to surveil for manipulative activity are both significantly greater in the Bitcoin Futures markets at CFE and CME. As such, the Exchange represents that Bitcoin Futures trade on regulated markets that are members of the ISG.

Second, the statistics related to Bitcoin Futures compare favorably to freight futures.<sup>24</sup> For instance, the

notional average daily volume for Bitcoin Futures in the third quarter and fourth quarter of 2018 were more than \$150 million and \$121 million, respectively,<sup>25</sup> as compared to the estimate of \$50–100 million per day for freight futures. Moreover, approximately \$44.1 billion in Bitcoin Futures traded in 2018<sup>26</sup> and more than \$7.7 billion in Bitcoin Futures traded in the fourth quarter of 2018, even as the price of bitcoin declined.<sup>27</sup> Further, open interest in Bitcoin Futures was approximately \$86 million as of December 31, 2018.<sup>28</sup> Stated another way, approximately 5.8 million bitcoin worth of Bitcoin Futures traded in 2018 (more than 30% of the current total bitcoin supply), more than 1.5 million bitcoin worth traded in the fourth quarter alone (more than 4% of the current total bitcoin supply), and more than 22,600 bitcoin worth of open interest exists in Bitcoin Futures. Looking at these numbers, the liquidity in Bitcoin Futures was relatively consistent over 2018. Given the favorable comparison to freight futures, the Exchange believes that the significant trading volume in Bitcoin Futures, especially as it relates to the total bitcoin supply, makes the market for Bitcoin Futures a significant market.<sup>29</sup>

included statistics related to open interest, yearly volume, and distribution of open interest across contract types and had represented that liquidity had remained relatively constant over a five-year period. The GraniteShares Disapproval Order also noted that the listing exchange had represented that "the Freight Futures trade on well-established, regulated markets that are members of the ISG." See GraniteShares Disapproval Order at 24.

<sup>25</sup> All statistics herein are based on publicly available statistics from CFE and CME and a bitcoin price of \$7107, \$6691, \$6593, \$6478, \$5452, and \$3720, for July through December, respectively, and \$7558 for 2018, which was the approximate average daily price of bitcoin in 2018.

<sup>26</sup> Based on publicly available statistics from CFE and CME and a bitcoin price of \$7558, which was the approximate average daily price of bitcoin in 2018.

<sup>27</sup> Based on publicly available statistics from CFE and CME and a bitcoin price of \$6478, \$5452, and \$3720, for October, November, and December, respectively, which were each the approximate average daily price of bitcoin during those months.

<sup>28</sup> Based on publicly available statistics from CFE and CME and a bitcoin price of \$3791, which was the approximate price of bitcoin on December 31, 2018.

<sup>29</sup> The Exchange also notes that there has been a strong correlation between the price of Bitcoin Futures and the bitcoin spot price over the more than year-long trading history of Bitcoin Futures, which is indicative of the easily arbitrageable bitcoin spot and Bitcoin Futures prices. See Memorandum to File No. SR-CboeBZX-2018-040,

## Volatility and Manipulation

The Exchange also takes issue with the implication that the price volatility in bitcoin implies that the price of bitcoin is being manipulated and, thus, the underlying markets cannot be significant and regulated. Looking at the history of the Baltic Dry Index (the "BDI"), which is a composite index designed to reflect the broader dry bulk shipping industry and which the Approval Order states "is a common industry measure of dry bulk rates" that "has reflected the volatility of charter rates over the last 15 years," the dry bulk shipping industry often experiences even greater periods of volatility than the price of bitcoin. For instance, the BDI hit a record high of 11,793 on May 20, 2008 and proceeded to fall to 663 by December 5, 2008, a decline of nearly 95% over approximately six and a half months. While that was the largest decline, it is one of numerous significant price declines in the recent history of the BDI. For instance, from August 3, 2015 to February 8, 2016, the BDI went from 1200 to 291 (–74.6% over six months). From December 9, 2013 to July 14, 2014 the BDI went from 2330 to 732 (–68.6% over seven months) and further fell to 513 on February 7, 2015 (total decline of 78% over 14 months).<sup>30</sup> Even since the Approval Order was issued, the BDI dropped from 1702 in December 2017 to 948 in April (–44.4% in five months), bounced back to 1773 in July and dropped to 1008 in November (–43.2% in five months). The price of the fund (and investors' returns) reflects this volatility. Just like the price of bitcoin, the price of dry bulk shipping (and thus the BDI) is dependent on the complex interaction of natural market forces, which can result in significant price movement over short periods of time as supply or demand adjust.

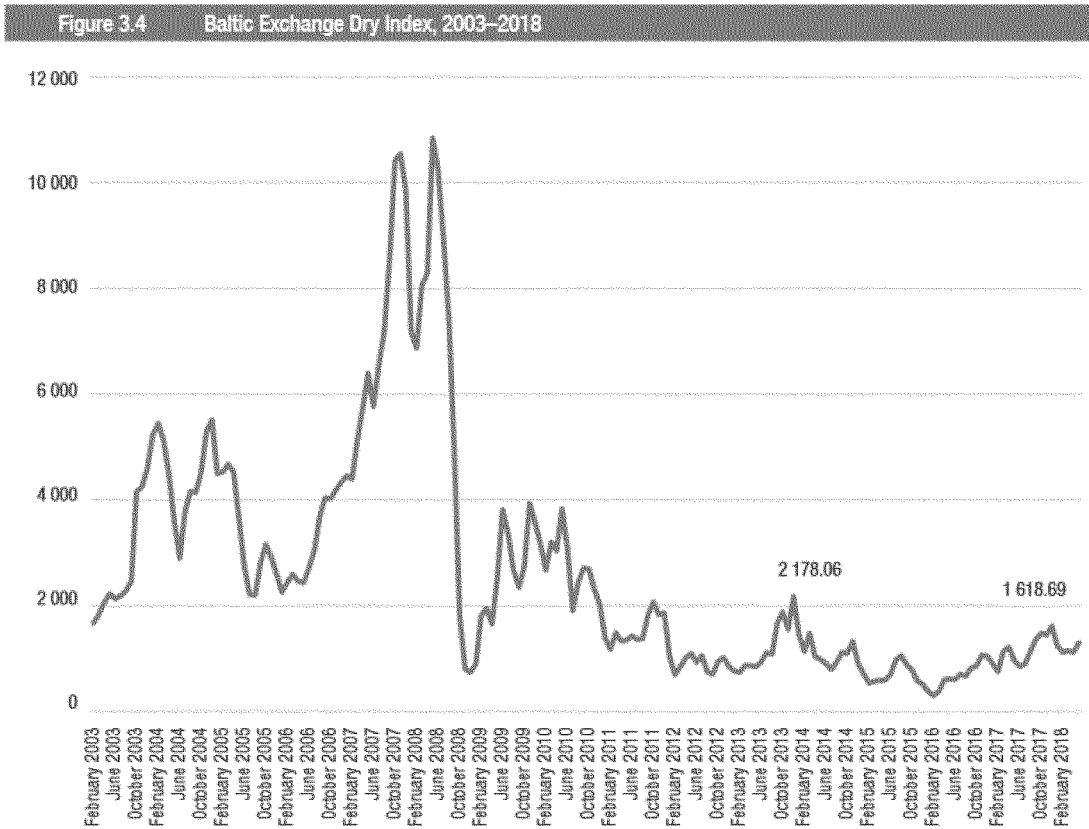
November 28, 2018, available at: <https://www.sec.gov/comments/sr-cboebzx-2018-040/sr-cboebzx2018040-4691015-176590.pdf>.

<sup>30</sup> The BDI is a composite index made up of sub-indices that track the Capesize, Panamax, Supramax, and Handysize charter rates. According to the Approval Order, the reference indexes for the dry bulk shipping fund track the charter rate for only Capesize, Panamax, and Supramax, meaning that, the fund in the Approval Order excludes Handysize rates. Publicly available information indicates that Capesize, Panamax, and Supramax rates have experienced similar, if not more pronounced, volatility as the BDI index over the same period of review. For example, the Baltic Capesize Index fell from 18,749 in May 2008 to 838 in November 2008 (96.6%).

<sup>22</sup> See page 3 of the slide show available at: <http://www.drybulketf.com/assets/ETFMG-BDRY-ETF-Investment-Strategy.pdf>.

<sup>23</sup> The GraniteShares Disapproval Order provided some additional insight into the basis for determining that the dry bulk shipping futures market was a significant, regulated market than was originally included in the Approval Order, as further described below.

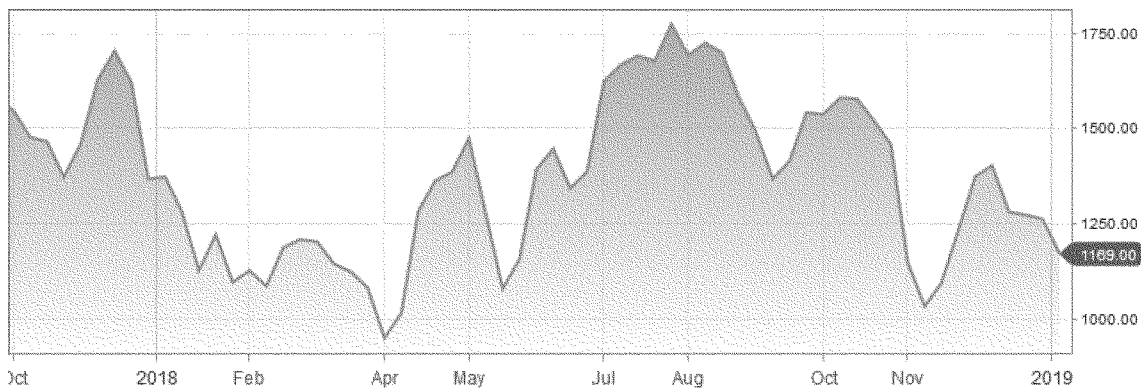
<sup>24</sup> As noted above, the GraniteShares Disapproval Order provided more detail about the analysis than the Approval Order itself, pointing out that the length of time that the futures had been trading ("at least a dozen years") and that the proposal included more than just daily volume figures, but also



Source: UNCTAD secretariat calculations, based on data from the Baltic Exchange.

Notes: The Index is made up of 20 key dry bulk routes measured on a time charter basis and covers Handysize, Supramax, Panamax and Capesize dry bulk carriers, which carry commodities such as coal, iron ore and grain. Index base: 1 November 1999 = 1,334 points. 31

### Baltic Exchange: Baltic Dry Index 32



Further to this point, the Exchange emphasizes that the standard applicable under Section 6(b)(5) of the Act is not that there must be a complete absence of manipulation in the underlying market. In fact, the Commodity Futures Trading Commission (the “CFTC”)

significantly increased the number of enforcement cases it brought in fiscal year 2018 related to manipulative conduct and spoofing,<sup>33</sup> including bringing cases involving futures related to gold, silver, and S&P 500 futures

contracts, among others,<sup>34</sup> each of which are also the underlying reference asset for numerous ETPs. As noted in the GraniteShares Disapproval Order, such manipulation on regulated markets provides regulators, including the listing self-regulatory organization, with

<sup>31</sup> Chart sourced from United Nations Conference on Trade and Development, Review of Maritime Transport 2018.

<sup>32</sup> Chart sourced from *cnbc.com*.

<sup>33</sup> See 2018 Annual Report on the Division of Enforcement at the Commodity Futures Trading Commission, available: [https://www.cftc.gov/sites/default/files/2018-11/ENFAnnualReport111418\\_0.pdf](https://www.cftc.gov/sites/default/files/2018-11/ENFAnnualReport111418_0.pdf).

<sup>34</sup> See James M. McDonald, *Statement in Connection with Manipulation and Spoofing Filings* (Jan. 29, 2018). <https://www.cftc.gov/PressRoom/SpeechesTestimony/mcdonaldstatement012918>.

a window into such manipulative trading activity, leaving them better able to detect, understand, and deter potential manipulation in the ETP and the underlying reference asset. Based on the favorable comparison laid out above between the Bitcoin Futures market and the dry bulk shipping futures market combined with the Commission's determination that the dry bulk shipping market is a significant, regulated market, the Exchange believes that the Bitcoin Futures market is similarly significant and regulated and would provide the window described above into potential manipulation in the Shares. As further described below, the Exchange will also be able to obtain information about bitcoin transactions, trades and market data from each of the OTC platforms that are included in the MVBTCO and from bitcoin exchanges with which the Exchange has entered into a comprehensive surveillance sharing agreement, as well as certain additional information that is publicly available through the Bitcoin blockchain.

#### Basis for Approval

This analysis of the Approval Order is not to say that the Approval Order should not have been issued—to the contrary, Cboe is only asking that this proposal be reviewed through the same lens as similar precedent and believes that such an analysis would result in this proposal being approved. The Commission's approval of this or any proposal to list and trade an ETP is not an endorsement of the underlying asset and especially is not a guarantee against the ETP being an extremely risky and/or volatile investment. Rather, it signifies that the benefits to end investors that want exposure to a particular asset class from having a regulated and transparent U.S. exchange traded vehicle outweigh the applicable risk of manipulation. With this in mind, Cboe believes that the Bitcoin Futures market is a significant, regulated market, especially when compared to the dry bulk shipping futures market described in the Approval Order, and therefore the Commission should approve this proposal. Further, even if the Commission were to determine that the Bitcoin Futures market is not a significant, regulated market, the Exchange believes that the regulated nature of each of the firms that make up the MVIS® Bitcoin OTC, the nature of trading and liquidity available on each of its constituents, and the comprehensive surveillance sharing agreements that the Exchange will have in place with each of the OTC Trading Desks, constitutes sufficient record

evidence to demonstrate that there are other means to prevent fraudulent and manipulative acts and practices in the Shares.

#### Bitcoin Price Index

The Fund will use the MVBTCO to calculate the Trust's net asset value ("NAV"). The MVBTCO represents the value of one bitcoin in U.S. dollars at any point in time based on executable bids and asks derived from constituent bitcoin OTC platforms.<sup>35</sup> The index also generates a closing price as of 4:00 p.m., Eastern Time ("E.T."), each weekday, which is the value used to calculate the Trust's NAV. The index price and the closing price are calculated using the same methodology. The intra-day levels of the MVBTCO incorporate the real-time price of bitcoin based on executable bids and asks derived from constituent bitcoin OTC platforms that have entered into an agreement with MV Index Solutions GmbH ("MVIS") to provide such information.

The intra-day price and closing level of the MVBTCO are calculated using a proprietary methodology collecting executable bid/ask spreads and calculating a mid-point price from several U.S.-based bitcoin OTC platforms and is published at or after 4:00 p.m., E.T., each weekday. The MVBTCO is published to two decimal places rounded on the last digit. The MVBTCO has been live since November 20, 2018 and additional information about the index can be found on the MVBTCO's website (<https://www.mvis-indices.com/indices/digital-assets/mvis-bitcoin-us-otc-spot>). MVIS is the index sponsor and calculation agent for the MVBTCO. The Sponsor has entered into a licensing agreement with MVIS to use the MVBTCO. The Trust is entitled to use the MVBTCO pursuant to a sub-licensing arrangement with the Sponsor.

The MVBTCO calculates the intra-day price of bitcoin every 15 seconds, including the closing price as of 4:00 p.m. E.T. The bitcoin OTC platforms included in the MVBTCO are U.S.-based entities. These platforms are well established institutions that comply with anti-money laundering ("AML") and know your customer ("KYC") regulatory requirements with respect to trading counterparties and include entities that are regulated by the SEC

<sup>35</sup> As noted above, each OTC Trade Desk offers constant, executable bids and offers of at least \$250,000 worth of bitcoin. The index value is based on these bids and offers, the logic for which is further described below. The OTC Trading Desks are the three largest participants in the U.S. dollar OTC bitcoin trading market. The Exchange will have in place a comprehensive surveillance sharing agreement with each of the OTC Trading Desks prior to the Shares listing on the Exchange.

and FINRA as registered broker-dealers and affiliates of broker-dealers.

The logic utilized for the derivation of the intra-day and daily closing index level for the MVBTCO is intended to analyze actual executable bid/ask spread data, verify and refine the data set and yield an objective, fair-market value of one bitcoin throughout the day and as of 4:00 p.m. E.T. each weekday, priced in U.S. dollars. As discussed herein, the MVBTCO intra-day price and the MVBTCO closing price are collectively referred to as the MVBTCO price, unless otherwise noted.

The key elements of the algorithm underlying the MVBTCO include:

- Equal Weighting of OTC Platforms: This mitigates the impact of spikes at single platforms.
- Using executable bid/ask spreads and the respective mid-point prices, which are consistently available.

The Sponsor is not aware of any bitcoin derivatives currently trading based on the MVBTCO.

#### OTC Trading

OTC trading of bitcoin is generally accomplished via bilateral agreements on a principal-to-principal basis. All risks and issues of credit are between the parties directly involved in the transaction. The OTC market provides a relatively flexible market in terms of quotes, price, size and other factors. The OTC market has no formal structure and no open-outcry meeting place. Parties engaging in OTC transactions will agree upon a price—often via phone or email—and one of the two parties would then initiate the transaction. For example, a seller of bitcoin could initiate the transaction by sending the bitcoin to the buyer's bitcoin address. The buyer would then wire U.S. dollars to the seller's bank account. The OTC Trading Desks are the three largest participants in the U.S. dollar OTC bitcoin trading market. Based on its observations and experience in the market, the Sponsor estimates that the U.S. dollar OTC bitcoin trading volume globally represents on average approximately 25–50% of the trading volume of bitcoin traded globally in U.S. dollars on U.S. dollar-denominated bitcoin exchanges.

According to the Registration Statement, transaction costs in the OTC market are negotiable between the parties and therefore vary with some participants willing to offer competitive prices for larger volumes, although this will vary according to market conditions. Cost indicators can be obtained from OTC trading platforms as well as various information service providers, such as the bitcoin price

indexes and bitcoin exchanges. OTC trading tends to be in large blocks of bitcoin and between institutions.

The Trust intends to buy and sell bitcoin in the OTC bitcoin market. The Sponsor currently expects that often it will be more cost efficient for the Trust to effect large trades (e.g., \$500,000 or greater) in the OTC market rather than on a bitcoin exchange. The Trust therefore expects to conduct most of its trading in the OTC bitcoin market, primarily on the OTC platforms that comprise the MVBTCO. As noted above, each OTC Trade Desk offers constant, executable bids and offers of at least \$250,000 worth of bitcoin and offers near real-time quotes for tens of millions of dollars of bitcoin and, in most circumstances, minimal slippage.

When buying and selling bitcoin in the OTC market, the Trust will consider various market factors, including the total U.S. dollar size of the trade, the volume of bitcoin traded across the various U.S. dollar-denominated bitcoin exchanges during the preceding 24-hour period, available liquidity offered by OTC market participants, and the bid and ask quotes offered by OTC market participants. The Trust's goal is to fill an order at the best possible price.

To the extent a Basket creation or redemption order necessitates the buying or selling of a large block of bitcoin (e.g., an amount that if an order were placed on an exchange would potentially move the price of bitcoin), the Sponsor represents that placing such a trade in the OTC market may be advantageous to the Trust. OTC trades help avoid factors such as potential price slippage (causing the price of bitcoin to move as the order is filled on the exchange), while offering speed in trade execution and settlement (an OTC trade can be executed immediately upon agreement of terms between counterparties) and privacy (to avoid other market participants entering trades in advance of a large block order). OTC bitcoin trading is typically private and not regularly reported. The Trust does not intend to report its OTC trading. The Trust has established delivery-versus-payment like ("DVP") and receive-versus-payment like ("RVP") trading arrangements with its trading counterparties pursuant to which the Trust will be able to minimize counterparty risk. These arrangements are on a trade-by-trade basis and do not bind the Trust to continue to trade with any counterparty.

The Trust expects to take custody of bitcoin within one business day of receiving an order from an Authorized Participant to create a Basket (as defined

in "Creation and Redemption of Shares" below).

The dual elements of principal to principal trading combined with the large size at which trades are effected should effectively eliminate the ability of market participants to manipulate the market with small trades as may be the case on any individual exchange. As noted above, the OTC desks that comprise the MVBTCO with which the Trust intends to effect transactions are well established institutions that comply with AML and KYC regulatory requirements with respect to trading counterparties and include entities that are regulated by the SEC and FINRA as registered broker-dealers and affiliates of broker-dealers. It is the Sponsor's position that the OTC desks have a better measure of the market than any exchange-specific reference price, whether individually or indexed across multiple exchanges.

#### Bitcoin Trading on Exchanges

According to the Registration Statement, to the extent the Trust conducts bitcoin trading on an exchange, it expects to do so on the following U.S. dollar-denominated bitcoin exchanges: Bitstamp (located in Slovenia and with an office in the U.K.), Coinbase (located in California), Gemini (located in New York), itBit (located in New York), bitFlyer (located in New York) and Kraken (located in San Francisco). All of these exchanges follow AML and KYC regulatory requirements.

#### Bitcoin Price Transparency

In addition to the price transparency of the MVBTCO, with respect to the OTC market, and the bitcoin exchange market itself, the Trust will provide information regarding the Trust's bitcoin holdings as well as additional data regarding the Trust. The Sponsor expects that the dissemination of information on the Trust's website, along with quotations for and last-sale prices of transactions in the Shares and the intra-day indicative value ("IIV") and NAV of the Trust will help to reduce the ability of market participants to manipulate the bitcoin market or the price of the Shares and that the Trust's arbitrage mechanism will facilitate the correction of price discrepancies in bitcoin and the Shares. The Sponsor believes that demand from new, larger investors accessing bitcoin through investment in the Shares will broaden the investor base in bitcoin, which could further reduce the possibility of collusion among market participants to manipulate the bitcoin market. The Sponsor expects that the Shares will be

purchased primarily by institutional and other substantial investors (such as hedge funds, family offices, private wealth managers and high-net-worth individuals), which will provide additional liquidity and transparency to the bitcoin market in a regulated vehicle such as the Trust.

According to the Sponsor, the MVBTCO's methodology decreases the influence on the MVBTCO of any particular OTC platform that diverges from the rest of the data points used by the MVBTCO, which reduces the possibility of an attempt to manipulate the price of bitcoin as reflected by the MVBTCO.

#### Bitcoin Security and Storage for the Trust

According to the Sponsor, given the novelty and unique digital characteristics (as set forth above) of bitcoin as an innovative asset class, traditional custodians who normally custody assets do not currently offer custodial services for bitcoin. Accordingly, the Trust will secure bitcoin using multi-signature "cold storage wallets", an industry best practice. A cold storage wallet is created and stored on a computer with no access to a network, i.e., an "air-gapped" computer with no ability to access the internet. Such a computer is isolated from any network, including local or internet connections. A multi-signature address is an address associated with more than one private key. For example, a "2 of 3" address requires two signatures (out of three) from two separate private keys (out of three) to move bitcoin from a sender address to a receiver address.

The Trust will utilize bitcoin private keys that are generated and stored on air-gapped computers. The movement of bitcoin will require physical access to the air-gapped computers and use of multiple authorized signers. For backup and disaster recovery purposes, the Trust will maintain cold storage wallet backups in locations geographically distributed throughout the United States, including in the Northeast and Midwest.

In addition to its security system, the Trust will maintain comprehensive insurance coverage underwritten by various insurance carriers. The purpose of the insurance is to protect investors against loss or theft of the Trust's bitcoin. The insurance will cover loss of bitcoin by, among other things, theft, destruction, bitcoin in transit, computer fraud and other loss of the private keys that are necessary to access the bitcoin held by the Trust. The coverage is subject to certain terms, conditions and

exclusions, as discussed in the Registration Statement. The insurance policy will carry initial limits of \$25 million in primary coverage and \$100 million in excess coverage, with the ability to increase coverage depending on the value of the bitcoin held by the Trust. To the extent the value of the Trust's bitcoin holdings exceeds the total \$125,000,000 of insurance coverage, the Sponsor has made arrangements for additional insurance coverage with the goal of maintaining insurance coverage at a one-to-one ratio with the Trust's bitcoin holdings valued in U.S. dollars such that for every dollar of bitcoin held by the Trust there is an equal amount of insurance coverage.

The Sponsor expects that the Trust's auditor will verify the existence of bitcoin held in custody by the Trust. In addition, the Trust's insurance carriers will have inspection rights associated with the bitcoin held in custody by the Trust.

#### Bitcoin Market Price

In the ordinary course of business, the Administrator will value the bitcoin held by the Trust based on the closing price set by the MVBTCO or one of the other pricing sources set forth below (each, a "bitcoin Market Price") as of 4:00 p.m. E.T., on the valuation date on any day that the Exchange is open for regular trading. For further detail, see (i) below. If for any reason, and as determined by the Sponsor, the Administrator is unable to value the Trust's bitcoin using the procedures described in (i), the Administrator will value the Trust's bitcoin using the cascading set of rules set forth in (ii) through (iv) below. For the avoidance of doubt, the Administrator will employ the below rules sequentially and in the order as presented, should the Sponsor determine that one or more specific rule(s) fails. The Sponsor may determine that a rule has failed if a pricing source is unavailable or, in the judgment of the Sponsor, is deemed unreliable. To the extent the Administrator uses any of the cascading set of rules, the Sponsor will make public on the Trust's website the rule being used.

(i) Except as further described below, the bitcoin Market Price will be: The price set by the MVBTCO as of 4:00 p.m. E.T., on the valuation date. The MVBTCO is a real-time U.S. dollar-denominated composite reference rate for the price of bitcoin. The MVBTCO calculates the intra-day price of bitcoin every 15 seconds, including the closing price as of 4:00 p.m. E.T. The intra-day price and closing price are based on a methodology that consists of collecting

actual executable bid/ask spreads and calculating a mid-point price from constituent bitcoin OTC platforms that have entered into an agreement with MVIS. The logic utilized for the derivation of the daily closing index level for the MVBTCO is intended to analyze actual executable bid/ask spread data, verify and refine the data set, and yield an objective, fair-market value of one bitcoin throughout the day and as of 4:00 p.m. E.T. each weekday, priced in U.S. dollars.

(ii) In the event that rule (i) above fails, the bitcoin Market Price will be: the mid-point price between the bid/ask obtained by the Sponsor from any one of the bitcoin OTC platforms included within the MVBTCO index as of 4:00 p.m. E.T., on the valuation date.

(iii) In the event that rules (i) and (ii) above fail, the bitcoin Market Price will be: the volume weighted average bitcoin price for the immediately preceding 24-hour period at 4:00 p.m. E.T. on the valuation date as published by an alternative third party's public data feed that the Sponsor determines is reasonably reliable, subject to the requirement that such data is calculated based upon a volume weighted average bitcoin price obtained from the major U.S. dollar-denominated bitcoin exchanges ("Second Source"). Subject to the next sentence, if the Second Source becomes unavailable (e.g., data sources from the Second Source for bitcoin prices become unavailable, unwieldy or otherwise impractical for use), or if the Sponsor determines in good faith that the Second Source does not reflect an accurate bitcoin price, then the Sponsor will, on a best efforts basis, contact the Second Source in an attempt to obtain the relevant data. If after such contact the Second Source remains unavailable or the Sponsor continues to believe in good faith that the Second Source does not reflect an accurate bitcoin price, then the Administrator will employ the next rule to determine the bitcoin Market Price.

(iv) In the event that rules (i), (ii), and (iii) above fail, the bitcoin Market Price will be: The Sponsor will use its best judgment to determine a good faith estimate of the bitcoin Market Price.

#### The Trust

According to the Registration Statement, the Trust will invest in bitcoin only. The Trust will either (i) cause the Sponsor to receive bitcoin from the Trust in such quantity as may be necessary to pay the Management Fee or (ii) sell bitcoin in such quantity as may be necessary to permit payment in cash of the Management Fee and other Trust expenses and liabilities not

assumed by the Sponsor, such as the bitcoin Insurance Fee, bitcoin storage fees and salaries of Trust principals and employees. As a result, the amount of bitcoin sold will vary from time to time depending on the level of the Trust's expenses and the market price of bitcoin.

The Trust will pay the Sponsor a management fee as compensation for services performed on behalf of the Trust and for services performed in connection with maintaining the Trust. The Sponsor's fee will be payable monthly in arrears and will be accrued daily. The bitcoin Insurance Fee will be payable by the Trust monthly in advance, as described in the Registration Statement. Bitcoin storage fees and salaries of Trust principals and employees will be payable monthly in arrears and will be accrued daily.

In exchange for the Management Fee, the Sponsor has agreed to assume the following administrative and marketing expenses incurred by the Trust: Each of the Trustee's, Administrator's, Cash Custodian's, Transfer Agent's and Marketing Agent's monthly fee and out-of-pocket expenses and expenses reimbursable in connection with such service provider's respective agreement; the marketing support fees and expenses; exchange listing fees; SEC registration fees; index license fees; printing and mailing costs; maintenance expenses for the Trust's website; audit fees and expenses; and up to \$100,000 per annum in legal expenses. The Trust will be responsible for paying, or for reimbursing the Sponsor or its affiliates for paying, all the extraordinary fees and expenses, if any, of the Trust. The management fee to be paid to the Sponsor, the bitcoin Insurance Fee, the salaries of the Trust's principals and employees and the expenses associated with custody of the Trust's bitcoin are expected to be the only ordinary recurring operating expense of the Trust.

#### Net Asset Value

The NAV for the Trust will equal the market value of the Trust's total assets, including bitcoin and cash, less liabilities of the Trust, which include estimated accrued but unpaid fees, expenses and other liabilities. Under the Trust's proposed operational procedures, the Administrator will calculate the NAV on each business day that the Exchange is open for regular trading, as promptly as practicable after 4:00 p.m. E.T. To calculate the NAV, the Administrator will use the closing price set for bitcoin by the MVBTCO or one of the other bitcoin Market Prices set forth above. The Administrator will also



determine the NAV per Share by dividing the NAV of the Trust by the number of the Shares outstanding as of the close of trading on Regular Trading Hours, *i.e.*, 9:30 a.m. to 4:00 p.m. E.T. (which includes the net number of any Shares deemed created or redeemed on such day).

According to the Registration Statement, Authorized Participants (as defined in “Creation and Redemption of Shares” below), or their clients or customers, may have an opportunity to realize a riskless profit if they can create a Basket (as defined in “Creation and Redemption of Shares” below) at a discount to the public trading price of the Shares or can redeem a Basket at a premium over the public trading price of the Shares. The Sponsor expects that the exploitation of such arbitrage opportunities by Authorized Participants and their clients and customers will tend to cause the public trading price to track NAV per Share closely over time. Such arbitrage opportunities will not be available to holders of Shares who are not Authorized Participants.

While the Trust’s investment objective is for the Shares to reflect the performance of the price of bitcoin, less expenses of the Trust’s operations, the Shares may trade in the secondary market at prices that are lower or higher relative to their NAV per Share for a number of reasons, including price volatility, trading volume, and closing of bitcoin trading platforms due to fraud, failure, security breaches or otherwise.

The NAV per Share may fluctuate with changes in the market value of the bitcoin held by the Trust. The value of the Shares may be influenced by non-concurrent trading hours between the Exchange and the various bitcoin OTC platforms comprising the MVBTCO. As a result, there will be periods when the Exchange is closed and the bitcoin OTC platforms continue to trade. Significant changes in the price of bitcoin during such time periods could result in a difference between the value of bitcoin as measured by the MVBTCO and the most recent NAV per Share or closing trading price. The Exchange, however, expects that any meaningful divergence in the intraday price of the Shares and the MVBTCO will be quickly arbitrated away when trading is available on the Exchange because when such a discount or premium exists, Authorized Participants will generally be able to create or redeem a Basket of Shares at a discount or a premium to the public trading price per Share.

#### Impact on Arbitrage

Investors and market participants are able throughout the trading day to compare the market price of the Shares and the Share’s IIV. If the market price of the Shares diverges significantly from the IIV, Authorized Participants will have strong economic incentive to execute arbitrage trades. Because of the potential for arbitrage inherent in the structure of the Trust, the Sponsor believes that the Shares will not trade at a material discount or premium to the underlying bitcoin held by the Trust. If the price of the Shares deviates enough from the price of bitcoin to create a material discount or premium, an arbitrage opportunity is created. If the Shares are inexpensive compared to the bitcoin that underlies them, an arbitrageur may buy the Shares at a discount, immediately redeem them in exchange for bitcoin, and sell the bitcoin in the cash market at a profit. If the Shares are expensive compared to the bitcoin that underlies them, an arbitrageur may sell the Shares short, buy enough bitcoin to acquire the number of Shares sold short, acquire the Shares through the creation process, and deliver the Shares to close out the short position. To facilitate the arbitrage process, Authorized Participants may source bitcoin through the OTC market or on exchanges; alternatively, Authorized Participants may create or redeem for cash and the Trust will source buyers and sellers of bitcoin in the OTC market. The arbitrage process, which in general provides investors the opportunity to profit from differences in prices of assets, increases the efficiency of the markets, serves to prevent potentially manipulative efforts, and can be expected to operate efficiently in the case of the Shares and bitcoin.

#### Creation and Redemption of Shares

According to the Registration Statement, the Trust will issue and redeem “Baskets”, each equal to a block of 5 Shares, only to “Authorized Participants” (as described below). The size of a Basket is subject to change. The creation and redemption of a Basket require the delivery to the Trust, or the distribution by the Trust, of the number of whole and fractional bitcoins or the U.S. dollar equivalent represented by each Basket being created or redeemed, the number of which is determined by dividing the number of bitcoins owned by the Trust at such time by the number of Shares outstanding at such time (calculated to one one-hundred-millionth of one bitcoin), as adjusted for the number of whole and fractional bitcoins constituting accrued but unpaid

fees and expenses of the Trust and multiplying the quotient obtained by 5 (“bitcoin Basket Amount”). The bitcoin Basket Amount will gradually decrease over time as the Trust’s bitcoin are used to pay the Trust’s expenses. According to the Registration Statement, as of the date of the Registration Statement, each Share currently represents approximately 25 bitcoin.

Orders to create and redeem Baskets may be placed only by Authorized Participants.<sup>36</sup> A transaction fee will be assessed on all creation and redemption transactions effected in-kind. In addition, the Trust reserves the right to charge a variable transaction fee to the Authorized Participants for creations and redemptions effected in cash to cover the Trust’s expenses related to purchasing and selling bitcoin in the OTC market or on bitcoin exchanges if such expenses should exceed the fixed \$1,000 transaction fee. The variable transaction fee would cover actual expenses paid for the purchase and sale of bitcoin in order that such expenses do not decrease the NAV of the Trust. Such expenses may vary, but the Trust expects such expenses, should they occur in the future, to constitute 1% or less of the value of a Basket. The creation and redemption of a Basket requires the delivery to the Trust, or the distribution by the Trust, of the bitcoin Basket Amount (that is, the number of bitcoins represented by each Basket or the U.S. dollar equivalent), for each Basket to be created or redeemed. The bitcoin Basket Amount multiplied by the number of Baskets being created or redeemed is the “Total bitcoin Basket Amount.”

#### Creation Procedures

On any business day, an Authorized Participant may place an order with the Transfer Agent to create one or more Baskets. For purposes of processing both purchase and redemption orders, a “business day” means any day other than a day when the Exchange is closed for regular trading. Cash purchase orders must be placed by 3:00 p.m. E.T., or the close of regular trading on the Exchange, whichever is earlier, and in-kind purchase orders must be placed by 4:00 p.m. E.T., or the close of regular

<sup>36</sup> An Authorized Participant must: (1) Be a registered broker-dealer and a member in good standing with the Financial Industry Regulatory Authority (“FINRA”); (2) be a participant in Depository Trust Company (“DTC”). To become an Authorized Participant, a person must enter into an “Authorized Participant Agreement” with the Sponsor and the Transfer Agent. The Authorized Participant Agreement provides the procedures for the creation and redemption of Baskets and for the delivery of the cash (and, potentially, bitcoin in-kind) required for such creations and redemptions.

trading on the Exchange, whichever is earlier. The day on which the Transfer Agent receives a valid purchase order, as approved by the Marketing Agent, is the purchase order date. Purchase orders are irrevocable. By placing a purchase order, and prior to delivery of such Baskets, an Authorized Participant's DTC account will be charged the non-refundable transaction fee due for the purchase order.

#### Determination of Required Payment

The total payment required to create each Basket is determined by calculating the NAV of 5 Shares of the Trust as of the closing time of the Exchange on the purchase order date. Baskets are issued as of 2:00 p.m., E.T., on the business day immediately following the purchase order date at the applicable NAV as of the closing time of the Exchange on the purchase order date, but only if the required payment has been timely received.

Orders to purchase Baskets for cash must be placed no later than 3:00 p.m. E.T., or the close of regular trading on the Exchange, whichever is earlier, and orders to purchase Baskets in-kind must be placed no later than 4:00 p.m. E.T., or the close of regular trading on the Exchange, whichever is earlier. For cash creation orders, the total cash payment required to create a Basket will not be determined until approximately 4:00 p.m., E.T. (the time at which the Trust's NAV for that day is expected to be calculated) on the date the purchase order is received by the Transfer Agent and approved by the Marketing Agent. Authorized Participants therefore will not know the total amount of the payment required to create a Basket at the time they submit an irrevocable purchase order for the Basket. Valid cash orders to purchase Baskets received after 3:00 p.m. E.T., and valid in-kind orders to purchase Baskets received after 4:00 p.m. E.T., are considered received on the following business day. The NAV of the Trust, and thus the total amount of the payment required to create a Basket for cash could rise or fall substantially between the time an irrevocable purchase order is submitted and the time the amount of the purchase price in respect thereof is determined. Changes to the price of bitcoin between the time an order is placed and the time the final price is determined by the Trust will be borne by the Authorized Participant and not by the Trust.

The Sponsor makes available through the National Securities Clearing Corporation ("NSCC") on each business day, prior to the opening of business on the Exchange (a) the amount of cash

required for a cash creation of a Basket (the "Cash Basket Amount"), based on 100% of the NAV of the Shares per Basket as of the prior business day, which amount is applicable in order to effect cash purchases of Baskets until such time as the next announced amount is made available and (b) the bitcoin Basket Amount.

The payment required to create a Basket typically will be made in cash, but it may also be made partially or wholly in-kind at the discretion of the Sponsor if the Authorized Participant requests to convey bitcoin directly to the Trust. For a cash order to create, the Authorized Participant must deliver the Cash Basket Amount to the Cash Custodian on the day the order is placed and accepted and, potentially, an amount of cash on the business day after the order is placed and approved referred to as the "Balancing Amount," computed as described below. Upon delivery of the Cash Basket Amount and the Balancing Amount to the Cash Custodian, the Transfer Agent will cause the Trust to issue a Basket to the Authorized Participant. Expenses incurred by the Trust relating to purchasing bitcoin in assembling a cash creation Basket, such as OTC market fees, bitcoin exchange-related fees and/or transaction fees, will be borne by Authorized Participants, rather than the Trust, through the transaction fee charged by the Trust.

The Balancing Amount is an amount equal to the difference between the NAV of the Shares (per Basket) at the end of the business day the order is placed and approved and the Cash Basket Amount. The Balancing Amount serves to compensate for any difference between the NAV per Basket and the Cash Basket Amount. The Balancing Amount may be positive (in which case the Authorized Participant will be required to transfer the corresponding amount of cash to the Cash Custodian) or negative (in which case the amount of cash required to be transferred by the Authorized Participant will be less than the Cash Basket Amount, and if the Authorized Participant has already delivered the full Cash Basket Amount, the corresponding amount of cash will be returned to the Authorized Participant). Authorized Participants will be notified of the Balancing Amount that must be paid to the Cash Custodian or refunded by the Cash Custodian, if any, by approximately 4:00 p.m., E.T. on the business day the order is placed and approved. The Balancing Amount must be paid to the Cash Custodian no later than 2:00 p.m. E.T. on the business day following the date the order was placed and approved. Upon delivery of the

Cash Basket Amount and Balancing Amount to the Cash Custodian, the Transfer Agent will cause the Trust to issue a Basket to the Authorized Participant the following business day by 2:00 p.m., E.T.

To the extent the Authorized Participant places an in-kind order to create, the Authorized Participant must deliver the Bitcoin Basket Amount directly to the Trust (*i.e.* to the security system that holds the Trust's bitcoin) no later than 4:00 p.m. E.T. on the date the purchase order is received and approved. Upon delivery of the bitcoin to the Trust's security system, the Transfer Agent will cause the Trust to issue a Basket to the Authorized Participant the following business day by 2:00 p.m., E.T. Payment of any tax or other fees and expenses payable upon transfer of bitcoin shall be the sole responsibility of the Authorized Participant purchasing a Basket. Expenses incurred by Authorized Participants relating to purchasing bitcoin in assembling an in-kind creation Basket, such as OTC market fees, bitcoin exchange-related fees and/or transaction fees, will be borne by Authorized Participants.

The Administrator, by email or telephone correspondence, shall notify the Authorized Participant of the NAV of the Trust and the corresponding amount of cash (in the case of a cash purchase order) to be included in a Balancing Amount by approximately 4:00 p.m. E.T. on the day the purchase order is placed and approved.

#### Redemption Procedures

The procedures by which an Authorized Participant can redeem one or more Baskets mirror the procedures for the creation of Baskets. On any business day, an Authorized Participant may place an order with the Transfer Agent to redeem one or more Baskets. Cash redemption orders must be placed no later than 3:00 p.m. E.T., or the close of regular trading on the New York Stock Exchange, whichever is earlier, and redemption orders submitted in-kind must be placed by 4:00 p.m. E.T., or the close of regular trading on the Exchange, whichever is earlier. The day on which the Transfer Agent receives a valid redemption order, as approved by the Marketing Agent, is the "redemption order date." Redemption orders are irrevocable. The redemption procedures allow only Authorized Participants to redeem Baskets. A shareholder may not redeem Baskets other than through an Authorized Participant.

By placing a redemption order, an Authorized Participant agrees to deliver the Baskets to be redeemed through

DTC's book-entry system to the Trust not later than 4:00 p.m. E.T. on the business day immediately following the redemption order date. By placing a redemption order, and prior to receipt of the redemption proceeds, an Authorized Participant's DTC account will be charged the non-refundable transaction fee due for the redemption order.

#### Determination of Redemption Proceeds

The redemption proceeds from the Trust consist of the "cash redemption amount" or, if making an in-kind redemption, bitcoin. The cash redemption amount is equal to the U.S. dollar equivalent of the Total bitcoin Basket Amount requested in the Authorized Participant's redemption order as of the end of Regular Trading Hours on the redemption order date. The Cash Custodian will distribute the cash redemption amount at 4:00 p.m., E.T., on the business day immediately following the redemption order date through DTC to the account of the Authorized Participant as recorded on DTC's book-entry system. The bitcoin redemption amount will be the Total bitcoin Basket Amount. At the discretion of the Sponsor and if the Authorized Participant requests to receive bitcoin directly, some or all of the redemption proceeds may be distributed to the Authorized Participant in-kind by the Trust.

Orders to redeem Baskets must be placed no later than 3:00 p.m. E.T. for cash redemption orders and 4:00 p.m. E.T. for in-kind redemption orders, but the total amount of redemption proceeds typically will not be determined until after 4:00 p.m. E.T. on the date the redemption order is received. Authorized Participants therefore will not know the total amount of the redemption proceeds at the time they submit an irrevocable redemption order.

#### Delivery of Redemption Proceeds

The redemption proceeds due from the Trust are delivered to the Authorized Participant at 4:00 p.m. E.T. on the business day immediately following the redemption order date if, by such time on such business day immediately following the redemption order date, the Trust's DTC account has been credited with the Baskets to be redeemed. If the Trust's DTC account has not been credited with all of the Baskets to be redeemed by such time, the redemption distribution is delivered to the extent of whole Baskets received. The Sponsor may, but is not obligated to, extend the redemption date with respect to a redemption order for which whole Baskets have not been delivered

by the Authorized Participant. In such event, the Sponsor may charge the Authorized Participant a fee for such extension to reimburse the Trust for any losses incurred from the Authorized Participant's failure to deliver whole Baskets (including, but not limited to, expenses incurred in selling bitcoin in respect of the redemption order and/or buying bitcoin back following the failure of the Authorized Participant to deliver whole Baskets, as well as losses to the Trust from movements in the market value of bitcoin between selling the bitcoin and buying it back). If the Sponsor extends the redemption date, any remainder of the redemption distribution is delivered on the next business day to the extent of remaining whole Baskets received if the Sponsor receives the fee applicable to the extension of the redemption distribution date and the remaining Baskets to be redeemed are credited to the Trust's DTC account by 4:00 p.m. E.T. on such next business day. Any further outstanding amount of the redemption order shall be cancelled.

The Sponsor makes available through the NSCC, prior to the opening of business on the Exchange on each business day, (a) for in-kind redemptions, the amount of bitcoin per Basket and (b) for cash redemptions, the amount of cash per Basket that will be applicable to redemption requests received in proper form.

As with creation orders, the NAV of the Shares per Basket as of the day on which a redemption request is received and approved will be calculated after the deadline for redemption orders. The amount of cash payable per Basket for a cash redemption order accordingly will be calculated after the redemption order is received. The Administrator, by email or telephone correspondence, shall notify the Authorized Participant of the NAV of the Trust and the corresponding amount of cash (in the case of a cash redemption order) to be payable per Basket by approximately 4:00 p.m. E.T. on the day the purchase order is placed and approved.

To the extent the Authorized Participant places an in-kind order to redeem a Basket, the Trust will deliver, on the business day immediately following the day the redemption order is received, the Total bitcoin Basket Amount. Expenses relating to transferring bitcoin to an Authorized Participant in a redemption Basket will be borne by Authorized Participants via the redemption transaction fee.

#### Availability of Information

The Trust's website will provide an IIV per Share updated every 15 seconds,

as calculated by the Exchange or a third party financial data provider during the Exchange's Regular Trading Hours (9:30 a.m. to 4:00 p.m. E.T.). The IIV will be calculated by using the prior day's closing NAV per Share as a base and updating that value during Regular Trading Hours to reflect changes in the value of the Trust's bitcoin holdings during the trading day.

The IIV disseminated during Regular Trading Hours should not be viewed as an actual real-time update of the NAV, which will be calculated only once at the end of each trading day. The IIV will be widely disseminated on a per Share basis every 15 seconds during the Exchange's Regular Trading Hours by one or more major market data vendors. In addition, the IIV will be available through on-line information services.

The website for the Trust, which will be publicly accessible at no charge, will contain the following information: (a) The current NAV per Share daily and the prior business day's NAV and the reported closing price; (b) the mid-point of the bid-ask price<sup>37</sup> in relation to the NAV as of the time the NAV is calculated ("Bid-Ask Price") and a calculation of the premium or discount of such price against such NAV; (c) data in chart form displaying the frequency distribution of discounts and premiums of the Bid-Ask Price against the NAV, within appropriate ranges for each of the four previous calendar quarters (or for the life of the Trust, if shorter); (d) the prospectus; and (e) other applicable quantitative information. The Trust will also disseminate the Trust's holdings on a daily basis on the Trust's website. The price of bitcoin will be made available by one or more major market data vendors, updated at least every 15 seconds during Regular Trading Hours. Information about the MVBTCO, including key elements of how the MVBTCO is calculated, will be publicly available at [www.mvis-indices.com/](http://www.mvis-indices.com/).

The NAV for the Trust will be calculated by the Administrator once a day and will be disseminated daily to all market participants at the same time. To the extent that the Administrator has utilized the cascading set of rules described in "bitcoin Market Price" above, the Trust's website will note the valuation methodology used and the price per bitcoin resulting from such calculation. Quotation and last-sale information regarding the Shares will be disseminated through the facilities of

<sup>37</sup> The bid-ask price of the Trust is determined using the highest bid and lowest offer on the Consolidated Tape as of the time of calculation of the closing day NAV.

the Consolidated Tape Association (“CTA”).

Quotation and last sale information for bitcoin is widely disseminated through a variety of major market data vendors, including Bloomberg and Reuters, as well as the MVBTCO. Information relating to trading, including price and volume information, in bitcoin is available from major market data vendors and from the exchanges on which bitcoin are traded. Depth of book information is also available from bitcoin exchanges. The normal trading hours for bitcoin exchanges are 24 hours per day, 365 days per year.

The Trust will provide website disclosure of its bitcoin holdings daily. The website disclosure of the Trust’s bitcoin holdings will occur at the same time as the disclosure by the Sponsor of the bitcoin holdings to Authorized Participants so that all market participants are provided such portfolio information at the same time. Therefore, the same portfolio information will be provided on the public website as well as in electronic files provided to Authorized Participants. Accordingly, each investor will have access to the current bitcoin holdings of the Trust through the Trust’s website.

#### Rule 14.11(e)(4)—Commodity-Based Trust Shares

The Shares will be subject to BZX Rule 14.11(e)(4), which sets forth the initial and continued listing criteria applicable to Commodity-Based Trust Shares. The Exchange will obtain a representation that the Trust’s NAV will be calculated daily and that these values and information about the assets of the Trust will be made available to all market participants at the same time. The Exchange notes that, as defined in Rule 14.11(e)(4)(C)(i), the Shares will be:

(a) Issued by a trust that holds a specified commodity<sup>38</sup> deposited with the trust; (b) issued by such trust in a specified aggregate minimum number in

return for a deposit of a quantity of the underlying commodity; and (c) when aggregated in the same specified minimum number, may be redeemed at a holder’s request by such trust which will deliver to the redeeming holder the quantity of the underlying commodity. The Exchange notes that in addition to the in-kind creation and redemption processes described in Rule 14.11(e)(4)(C)(i), the Trust will also offer creations and redemptions of Shares for cash in addition to creating and redeeming in-kind. The Trust represents that the ability to create and redeem for cash will allow APs that may otherwise be unwilling or unable to source bitcoin on their own behalf to participate in the creation and redemption of Shares.

Upon termination of the Trust, the Shares will be removed from listing. The Trustee, Delaware Trust Company, is a trust company having substantial capital and surplus and the experience and facilities for handling corporate trust business, as required under Rule 14.11(e)(4)(E)(iv)(a) and that no change will be made to the trustee without prior notice to and approval of the Exchange. The Exchange also notes that, pursuant to Rule 14.11(e)(4)(F), neither the Exchange nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions or delays in calculating or disseminating any underlying commodity value, the current value of the underlying commodity required to be deposited to the Trust in connection with issuance of Commodity-Based Trust Shares; resulting from any negligent act or omission by the Exchange, or any agent of the Exchange, or any act, condition or cause beyond the reasonable control of the Exchange, its agent, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission or delay in the reports of transactions in an underlying commodity. Finally, as required in Rule 14.11(e)(4)(G), the Exchange notes that any registered market maker (“Market Maker”) in the Shares must file with the Exchange in a manner prescribed by the Exchange and keep current a list identifying all accounts for trading in an underlying commodity, related commodity futures or options on commodity futures, or any other related commodity derivatives, which the registered Market Maker may have or over which it may exercise investment discretion. No registered Market Maker shall trade in an

underlying commodity, related commodity futures or options on commodity futures, or any other related commodity derivatives, in an account in which a registered Market Maker, directly or indirectly, controls trading activities, or has a direct interest in the profits or losses thereof, which has not been reported to the Exchange as required by this Rule. In addition to the existing obligations under Exchange rules regarding the production of books and records (see, e.g., Rule 4.2), the registered Market Maker in Commodity-Based Trust Shares shall make available to the Exchange such books, records or other information pertaining to transactions by such entity or registered or non-registered employee affiliated with such entity for its or their own accounts for trading the underlying physical commodity, related commodity futures or options on commodity futures, or any other related commodity derivatives, as may be requested by the Exchange.

The Trust currently expects that there will be at least 100 Shares outstanding at the time of commencement of trading on the Exchange, which the Exchange believes to be sufficient to provide adequate market liquidity. Assuming a bitcoin price of \$4,000 and approximately 25 bitcoin per Share, the Shares would be approximately \$100,000 each. With a minimum of 100 Shares outstanding, the market value of all Shares outstanding would be approximately \$10,000,000. Rules 14.11(e)(4)(C)(ii)(b) [sic] and (c) provide that the Exchange will commence delisting proceedings for a series of Commodity-Based Trust Shares where the applicable trust has fewer than 50,000 receipts or the market value of all receipts issued and outstanding is less than \$1,000,000, respectively, following the initial 12 month period following commencement of trading on the Exchange. These rules are designed to ensure that there are sufficient shares and market value outstanding to facilitate the creation and redemption process and ensure that the arbitrage mechanism will keep the price of a series of Commodity-Based Trust Shares in line with its NAV and prevent manipulation in the shares. The Exchange is proposing that Rule 14.11(e)(4)(C)(ii)(b) [sic] would not apply to the Shares because the Exchange believes that such policy concerns are otherwise mitigated. The lower number of Shares is merely a function of price that will have no impact on the creation and redemption process and the arbitrage mechanism. Whether the Shares are priced equal to

<sup>38</sup> For purposes of Rule 14.11(e)(4), the term commodity takes on the definition of the term as provided in the Commodity Exchange Act. The CFTC has opined that Bitcoin is a commodity as defined in Section 1a(9) of the Commodity Exchange Act. See “In the Matter of Coinflip, Inc.” (“Coinflip”) (CFTC Docket 15–29 (September 17, 2015)) (order instituting proceedings pursuant to Sections 6(c) and 6(d) of the CEA, making findings and imposing remedial sanctions), in which the CFTC stated:

“Section 1a(9) of the CEA defines ‘commodity’ to include, among other things, ‘all services, rights, and interests in which contracts for future delivery are presently or in the future dealt in.’ 7 U.S.C. 1a(9). The definition of a ‘commodity’ is broad. See, e.g., Board of Trade of City of Chicago v. SEC, 677 F.2d 1137, 1142 (7th Cir. 1982). Bitcoin and other virtual currencies are encompassed in the definition and properly defined as commodities.”

25 bitcoin with a Basket of 5 Shares or the Shares are priced equal to .025 bitcoin with a Basket of 5,000 Shares, the cost to an AP to create or redeem will be the exact same and such a creation and redemption will have the same proportional impact on Shares and market value outstanding. Because the creation units and redemption units for most exchange-traded products are between 5,000 and 50,000 shares, it makes sense to apply a minimum number of shares outstanding to such products. Where a creation unit is 5 shares, the policy concerns that Rule 14.11(e)(4)(C)(ii)(b) [sic] is designed to address are mitigated even where there are significantly fewer shares outstanding. As such, the Exchange is proposing that it would not commence delisting proceedings for the Shares if the Shares do not satisfy Rule 14.11(e)(4)(C)(ii)(b) [sic].

#### Trading Halts

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares. The Exchange will halt trading in the Shares under the conditions specified in BZX Rule 11.18. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) The extent to which trading is not occurring in the bitcoin underlying the Shares; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares also will be subject to Rule 14.11(e)(4)(E)(ii), which sets forth circumstances under which trading in the Shares may be halted.

#### Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. BZX will allow trading in the Shares from 8:00 a.m. until 5:00 p.m. Eastern Time. The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in BZX Rule 11.11(a) the minimum price variation for quoting and entry of orders in securities traded on the Exchange is \$0.01 where the price is greater than \$1.00 per share or \$0.0001 where the price is less than \$1.00 per share.

#### Surveillance

The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the

Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Trading of the Shares through the Exchange will be subject to the Exchange's surveillance procedures for derivative products, including Commodity-Based Trust Shares. The issuer has represented to the Exchange that it will advise the Exchange of any failure by the Trust or the Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will surveil for compliance with the continued listing requirements. If the Trust or the Shares are not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12. The Exchange may obtain information regarding trading in the Shares and listed bitcoin derivatives via the Intermarket Surveillance Group ("ISG"), from other exchanges who are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement.<sup>39</sup> In addition, the Exchange may obtain information about bitcoin transactions, trades and market data from each of the OTC platforms that are included in the MVBTCO, from bitcoin exchanges with which the Exchange has entered into a comprehensive surveillance sharing agreement, as well as certain additional information that is publicly available through the Bitcoin blockchain. The Exchange notes that it has entered into a comprehensive surveillance sharing agreement with Gemini Exchange and is working to establish similar agreements with other bitcoin exchanges and the OTC Trading Desks.

#### Information Circular

Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Shares. Specifically, the Information Circular will discuss the following: (i) The procedures for the creation and redemption of Baskets (and that the Shares are not individually redeemable); (ii) BZX Rule 3.7, which imposes suitability obligations on Exchange members with respect to recommending transactions in the Shares to customers; (iii) how information regarding the IIV and the Trust's NAV are disseminated; (iv) the risks involved in trading the

<sup>39</sup> For a list of the current members and affiliate members of ISG, see [www.isgportal.com](http://www.isgportal.com).

Shares during the Pre-Opening<sup>40</sup> and After Hours Trading Sessions<sup>41</sup> when an updated IIV will not be calculated or publicly disseminated; (v) the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (vi) trading information.

In addition, the Information Circular will advise members, prior to the commencement of trading, of the prospectus delivery requirements applicable to the Shares. Members purchasing the Shares for resale to investors will deliver a prospectus to such investors. The Information Circular will also discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Act.

#### Additional Background on the Bitcoin Industry

##### The Bitcoin Network

A bitcoin is an asset that can be transferred among parties via the internet, but without the use of a central administrator or clearing agency. The term "decentralized" is often used in descriptions of bitcoin, in reference to bitcoin's lack of necessity for administration by a central party. The Bitcoin Network (*i.e.*, the network of computers running the software protocol underlying bitcoin involved in maintaining the database of bitcoin ownership and facilitating the transfer of bitcoin among parties) and the asset, bitcoin, are intrinsically linked and inseparable. Bitcoin was first described in a white paper released in 2008 and published under the name "Satoshi Nakamoto", and the protocol underlying bitcoin was subsequently released in 2009 as open source software.

##### Bitcoin Ownership and the Blockchain

To begin using bitcoin, a user may download specialized software referred to as a "bitcoin wallet". A user's bitcoin wallet can run on a computer or smartphone. A bitcoin wallet can be used both to send and to receive bitcoin. Within a bitcoin wallet, a user will be able to generate one or more "bitcoin addresses", which are similar in concept to bank account numbers, and each address is unique. Upon generating a bitcoin address, a user can begin to transact in bitcoin by receiving bitcoin at his or her bitcoin address and sending it from his or her address to another

<sup>40</sup> The Pre-Opening Session is from 8:00 a.m. to 9:30 a.m. Eastern Time.

<sup>41</sup> The After Hours Trading Session is from 4:00 p.m. to 5:00 p.m. Eastern Time.

user's address. Sending bitcoin from one bitcoin address to another is similar in concept to sending a bank wire from one person's bank account to another person's bank account.

Balances of the quantity of bitcoin associated with each bitcoin address are listed in a database, referred to as the "blockchain". Copies of the blockchain exist on thousands of computers on the Bitcoin Network throughout the internet. A user's bitcoin wallet will either contain a copy of the blockchain or be able to connect with another computer that holds a copy of the blockchain.

When a bitcoin user wishes to transfer bitcoin to another user, the sender must first request a bitcoin address from the recipient. The sender then uses his or her bitcoin wallet software, to create a proposed addition to the blockchain. The proposal would decrement the sender's address and increment the recipient's address by the amount of bitcoin desired to be transferred. The proposal is entirely digital in nature, similar to a file on a computer, and it can be sent to other computers participating in the Bitcoin Network. Such digital proposals are referred to as "bitcoin transactions". Bitcoin transactions and the process of one user sending bitcoin to another should not be confused with buying and selling bitcoin, which is a separate process (as discussed below in "bitcoin Trading On Exchanges" and "bitcoin Trading Over-the-Counter").

A bitcoin transaction is similar in concept to an irreversible digital check. The transaction contains the sender's bitcoin address, the recipient's bitcoin address, the amount of bitcoin to be sent, a confirmation fee and the sender's digital signature. The sender's use of his or her digital signature enables participants on the Bitcoin Network to verify the authenticity of the bitcoin transaction.

A user's digital signature is generated via usage of the user's so-called "private key", one of two numbers in a so-called cryptographic "key pair". A key pair consists of a "public key" and its corresponding private key, both of which are lengthy numerical codes, derived together and possessing a unique relationship.

Public keys are used to create bitcoin addresses. Private keys are used to sign transactions that initiate the transfer of bitcoin from a sender's bitcoin address to a recipient's bitcoin address. Only the holder of the private key associated with a particular bitcoin address can digitally sign a transaction proposing a transfer of bitcoin from that particular bitcoin address.

A user's bitcoin address (which is derived from a public key) may be safely distributed, but a user's private key must remain known solely by its rightful owner. The utilization of a private key is the only mechanism by which a bitcoin user can create a digital signature to transfer bitcoin from him or herself to another user. Additionally, if a malicious third party learns of a user's private key, that third party could forge the user's digital signature and send the user's bitcoin to any arbitrary bitcoin address (*i.e.*, the third party could steal the user's bitcoin).

When a bitcoin holder sends bitcoin to a destination bitcoin address, the transaction is initially considered unconfirmed. Confirmation of the validity of the transaction involves verifying the signature of the sender, as created by the sender's private key. Confirmation also involves verifying that the sender has not "double spent" the bitcoin (*e.g.*, confirming Party A has not attempted to send the same bitcoin both to Party B and to Party C). The confirmation process occurs via a process known as "bitcoin mining".

Bitcoin mining utilizes a combination of computer hardware and software to accomplish a dual purpose: (i) To verify the authenticity and validity of bitcoin transactions (*i.e.*, the movement of bitcoin between addresses) and (ii) the creation of new bitcoin. Neither the Sponsor nor the Trust intends to engage in bitcoin mining.

Bitcoin miners do not need permission to participate in verifying transactions. Rather, miners compete to solve a prescribed and complicated mathematical calculation using computers dedicated to the task. Rounds of the competition repeat approximately every ten minutes. In any particular round of the competition, the first miner to find the solution to the mathematical calculation is the miner who gains the privilege of announcing the next block to be added to the blockchain.

A new block that is added to the blockchain serves to take all of the recent-yet-unconfirmed transactions and verify that none are fraudulent. The recent-yet-unconfirmed transactions also generally contain transaction fees that are awarded to the miner who produces the block in which the transactions are inserted, and thereby confirmed. The successful miner also earns the so-called "block reward", an amount of newly created bitcoin. Thus, bitcoin miners are financially incentivized to conduct their work. The financial incentives received by bitcoin miners are a vital part of the process by which the Bitcoin Network functions.

Upon successfully winning a round of the competition (winning a round is referred to as mining a new block), the miner then transmits a copy of the newly-formed block to peers on the Bitcoin Network, all of which then update their respective copies of the blockchain by appending the new block, thereby acknowledging the confirmation of the transactions that had previously existed in an unconfirmed state.

A recipient of bitcoin must wait until a new block is formed in order to see the transaction convert from an unconfirmed state to a confirmed state. According to the Registration Statement, with new rounds won approximately every ten minutes, the average wait time for a confirmation is five minutes.

The protocol underlying bitcoin provides the rules by which all users and miners on the Bitcoin Network must operate. A user or miner attempting to operate under a different set of rules will be ignored by other network participants, thus rendering that user's or miner's behavior moot. The protocol also lays out the block reward, the amount of bitcoin that a miner earns upon creating a new block. The initial block reward when Bitcoin was introduced in 2009 was 50 bitcoin per block. That number has and will continue to halve approximately every four years until approximately 2140, when it is estimated that block rewards will go to zero. The most recent halving occurred on July 9, 2016, which reduced the block reward from 25 to 12.5 bitcoin. The next halving is projected for May 2020, which will reduce the block reward to 6.25 bitcoin from its current level of 12.5. The halving thereafter will occur in another four years and will reduce the block reward to 3.125 bitcoin, and so on. As of May 2018, there are approximately 17 million bitcoin that have been created, a number that will grow with certainty to a maximum of 21 million, estimated to occur by the year 2140. Bitcoin mining should not be confused with buying and selling bitcoin, which, as discussed below, is a separate process.

#### Use of Bitcoin and the Blockchain

Beyond using bitcoin as a value transfer mechanism, applications related to the blockchain technology underlying bitcoin have become increasingly prominent.<sup>42</sup> Blockchain-focused applications take advantage of certain unique characteristics of the

<sup>42</sup> Additional applications based on blockchain technology—both the blockchain underlying bitcoin as well as separate public blockchains incorporating similar characteristics of the blockchain underlying bitcoin—are currently in development by numerous entities, including financial institutions like banks.

blockchain such as secure time stamping (secure time stamps are on newly created blocks), highly redundant storage (copies of the blockchain are distributed throughout the internet) and tamper-resistant data secured by secure digital signatures.

According to the Registration Statement, blockchain-focused applications in usage and under development include, but are not limited to asset title transfer, secure timestamping, counterfeit and fraud detection systems, secure document and contract signing, distributed cloud storage and identity management. Although value transfer is not the primary purpose for blockchain-focused applications, the usage of bitcoin, the asset, is inherently involved in blockchain-focused applications, thus linking the growth and adoption of bitcoin to the growth and adoption of blockchain-focused applications.

#### Bitcoin Exchanges

Bitcoin exchanges operate websites that facilitate the purchase and sale of bitcoin for various government-issued currencies, including the U.S. dollar, the euro or the Chinese yuan. Activity on bitcoin exchanges should not be confused with the process of users sending bitcoin from one bitcoin address to another bitcoin address, the latter being an activity that is wholly within the confines of the Bitcoin Network and the former being an activity that occurs entirely on private websites.

Bitcoin exchanges operate in a manner that is unlike the traditional capital markets infrastructure in the U.S. and in other developed nations. Bitcoin exchanges combine the process of order matching, trade clearing, trade settlement and custody into a single entity. For example, a user can send U.S. dollars via wire to a bitcoin exchange and then visit the exchange's website to purchase bitcoin. The entirety of the transaction—from trade to clearing to settlement to custody (at least temporary custody)—is accomplished by the bitcoin exchange in a matter of seconds. The user can then withdraw the purchased bitcoin into a wallet to take custody of the bitcoin directly.

According to the Registration Statement, there are currently several U.S.-based regulated entities that facilitate bitcoin trading and that comply with state and/or U.S. AML and KYC regulatory requirements. While the CFTC is responsible for regulating the bitcoin spot market with respect to fraud and manipulation—in the same way that it regulates the spot market for

gold, silver or other exempt commodities—there is no direct, comprehensive federal oversight of bitcoin exchanges or trading platforms in the United States and no U.S. exchanges are registered with the Commission or the CFTC.

- Coinbase, which is based in California, is a bitcoin exchange that maintains money transmitter licenses in over thirty states, the District of Columbia and Puerto Rico. Coinbase is subject to the regulations enforced by the various State agencies that issued their respective money transmitter licenses to Coinbase. The New York Department of Financial Services (“NYDFS”) granted a BitLicense to Coinbase in January 2017.

- itBit is a bitcoin exchange that was granted a limited purpose trust company charter by the NYDFS in May 2015. Limited purpose trusts, according to the NYDFS, are permitted to undertake certain activities, such as transfer agency, securities clearance, investment management, and custodial services, but without the power to take deposits or make loans.

- Gemini is a bitcoin exchange that is also regulated by the NYDFS. In October 2015, NYDFS granted Gemini an Authorization Certificate, which allows Gemini to operate as a limited purpose trust company.

- Genesis Global Trading is a FINRA member firm that makes a market in bitcoin by offering two-sided liquidity (“Genesis Global Trading”). In May 2018, NYDFS granted Genesis Global Trading a BitLicense.

- bitFlyer is a virtual currency exchange that is registered in Japan. In November 2017, NYDFS granted Tokyo-based bitFlyer a BitLicense.

Bitcoin are traded with publicly disclosed valuations for each transaction, measured by one or more government currencies such as the U.S. dollar, the euro or the Chinese yuan. Bitcoin exchanges typically report publicly on their site the valuation of each transaction and bid and ask prices for the purchase or sale of bitcoin. Although each bitcoin exchange has its own market price, it is expected that most bitcoin exchanges' market prices should be relatively consistent with the bitcoin exchange market average since market participants can choose the bitcoin exchange on which to buy or sell bitcoin (*i.e.*, exchange shopping).

#### Additional Bitcoin Trading Products

In addition to the Bitcoin Futures market described above, certain U.S. platforms and non-U.S. based bitcoin exchanges offer derivative products on bitcoin such as options, swaps, and

futures. According to the Registration Statement, BitMex, based in the Republic of Seychelles, CryptoFacilities, based in the United Kingdom, 796 Exchange, based in China, and OKCoin Exchange China all offer futures contracts settled in bitcoin. Coinut, based in Singapore, offers bitcoin binary options and vanilla options based on the Coinut index. Deribit, based in the Netherlands, offers vanilla options and futures contracts settled in bitcoin. IGMarkets, based in the United Kingdom, Avatrade, based in Ireland, and Plus500, based in Israel, all offer bitcoin derivative products.

The CFTC has stated that bitcoin and other virtual currencies are encompassed in the definition of commodities under the CEA.<sup>43</sup> In July 2017, the CFTC issued an order granting LedgerX, LLC (“LedgerX”) registration as a derivatives clearing organization under the CEA. Under the order, LedgerX is authorized to provide clearing services for fully-collateralized digital currency swaps. LedgerX, which was also granted an order of registration as a Swap Execution Facility in July 2017, is the first federally-regulated exchange and clearing house for derivatives contracts settling in digital currencies. LedgerX began trading options and swaps on its platform in October 2017. While the CFTC does not regulate the bitcoin spot market—in the same way that it does not regulate the spot market for gold, silver or other exempt commodities—it is nevertheless responsible for overseeing and enforcing the CEA as it applies to trading in bitcoin derivatives.

In May 2015, the Swedish FSA approved the prospectus for “Bitcoin Tracker One”, an open-ended exchange-traded note that tracks the price of bitcoin in U.S. dollars. The Bitcoin Tracker One initially traded in Swedish krona on the Nasdaq Nordic in Stockholm, but is now also available to trade in euro. The Bitcoin Tracker One is available to retail investors in the European Union and to those investors in the U.S. who maintain brokerage accounts with Interactive Brokers.

Founded in 2013, Bitcoin Investment Trust, a private, open-ended trust available to accredited investors, is another investment vehicle that derives its value from the price of bitcoin. Eligible shares of the Bitcoin Investment Trust are quoted on the OTCQX marketplace under the symbol “GBTC”.

#### 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b)

<sup>43</sup> See Coinflip.

of the Act<sup>44</sup> in general and Section 6(b)(5) of the Act<sup>45</sup> in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Shares will be listed on the Exchange pursuant to the initial and continued listing criteria in Exchange Rule 14.11(e)(4). The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Trading of the Shares through the Exchange will be subject to the Exchange's surveillance procedures for derivative products, including Commodity-Based Trust Shares. The issuer has represented to the Exchange that it will advise the Exchange of any failure by the Trust or the Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will surveil for compliance with the continued listing requirements. If the Trust or the Shares are not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12. The Exchange may obtain information regarding trading in the Shares and listed bitcoin derivatives via the ISG, from other exchanges who are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, the Exchange may obtain information about bitcoin transactions, trades and market data from each of the OTC platforms that are included in the MVBTCO, from bitcoin exchanges with which the Exchange has entered into a comprehensive surveillance sharing agreement as well as certain additional information that is publicly available through the Bitcoin blockchain. The Exchange notes that it has entered into a comprehensive surveillance sharing agreement with Gemini Exchange and is working to establish similar agreements

with other bitcoin exchanges and the OTC Trading Desks.

The proposal is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest in that it will facilitate the listing and trading of Commodity-Based Trust Shares based on the price of bitcoin that will enhance competition among market participants, to the benefit of investors and to the marketplace, and will allow institution and other substantial investors access to bitcoin exposure without requiring direct access to the bitcoin market and the associated complications. Despite the growing investor interest in bitcoin, the primary means for investors to gain access to bitcoin exposure remains either through direct investment through bitcoin exchanges, over-the-counter trading, or bitcoin derivatives contracts. For investors simply wishing to express an investment viewpoint in bitcoin, investment through derivatives is complex and requires active management and direct investment in bitcoin brings with it significant inconvenience, complexity, expense, and risk. The Shares would therefore represent a significant innovation in the bitcoin market by providing an inexpensive and simple vehicle for investors to gain exposure to bitcoin in a secure and easily accessible product that is familiar and transparent to investors. Such an innovation would help to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest by improving investor access to bitcoin exposure through efficient and transparent exchange-traded derivative products.

As noted above, the Sponsor expects that the Shares will be purchased primarily by institutional and other substantial investors (such as hedge funds, family offices, private wealth managers and high-net-worth individuals), which will provide additional liquidity and transparency to the bitcoin market in a regulated vehicle such as the Trust. With an estimated initial per-share price equivalent to 25 bitcoin, the Shares will be cost-prohibitive for smaller retail investors while allowing larger and generally more sophisticated institutional investors to gain exposure to the price of bitcoin through a regulated product while eliminating the complications and reducing the risk associated with buying and holding bitcoin.

The Exchange also believes that allowing cash creations and redemptions, in addition to the in-kind creations described in Rule 14.11(e)(4)(C)(i), will allow APs that

may otherwise be unwilling or unable to source bitcoin on their own behalf to participate in the creation and redemption of Shares, further acting to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

The Exchange also believes that not commencing delisting proceedings for the Shares if the Shares do not satisfy Rule 14.11(e)(4)(C)(ii)(b) [sic] is consistent with the Act because where a creation unit is 5 shares because the policy concerns that Rule 14.11(e)(4)(C)(ii)(b) [sic] is designed to address related to minimum receipts outstanding following the 12 month period following commencement of trading on the Exchange are mitigated even where there are significantly fewer shares outstanding. The Exchange believes that the lower number of Shares is merely a function of price and that, in this instance, will have no impact on the creation and redemption process and the arbitrage mechanism.

The Exchange also believes that the proposal promotes market transparency in that a large amount of information is currently available about bitcoin and will be available regarding the Trust and the Shares. The Exchange will obtain a representation that the Trust's NAV will be calculated daily and that these values and information about the assets of the Trust will be made available to all market participants at the same time. Quotation and last sale information for bitcoin is widely disseminated through a variety of major market data vendors, including Bloomberg and Reuters. The spot price of bitcoin is available on a 24-hour basis from major market data vendors, including Bloomberg and Reuters, as well as the MVBTCO. Information relating to trading, including price and volume information, in bitcoin is available from major market data vendors and from the exchanges on which bitcoin are traded. Depth of book information is also available from bitcoin exchanges. The normal trading hours for bitcoin exchanges are 24 hours per day, 365 days per year. The Trust will provide website disclosure of its bitcoin holdings daily. The website disclosure of the Trust's bitcoin holdings will occur at the same time as the disclosure by the Sponsor of the bitcoin holdings to Authorized Participants so that all market participants are provided such portfolio information at the same time. The website for the Trust, which will be publicly accessible at no charge, will contain the following information: (a) The current NAV per Share daily and the prior business day's NAV and the reported closing price; (b) the Bid-Ask

<sup>44</sup> 15 U.S.C. 78f.

<sup>45</sup> 15 U.S.C. 78f(b)(5).



Price and a calculation of the premium or discount of such price against such NAV; (c) data in chart form displaying the frequency distribution of discounts and premiums of the Bid-Ask Price against the NAV, within appropriate ranges for each of the four previous calendar quarters (or for the life of the Trust, if shorter); (d) the prospectus; and (e) other applicable quantitative information. The Trust will also disseminate the Trust's holdings on a daily basis on the Trust's website. The price of bitcoin will be made available by one or more major market data vendors, updated at least every 15 seconds during Regular Trading Hours. Information about the MVBTCO, including key elements of how the MVBTCO is calculated, will be publicly available at [www.mvis-indices.com/](http://www.mvis-indices.com/). The IIV will be widely disseminated on a per Share basis every 15 seconds during the Exchange's Regular Trading Hours by one or more major market data vendors. In addition, the IIV will be available through on-line information services.

As discussed extensively above, Cboe believes that, based on previous application of the standard, the market for Bitcoin Futures is a regulated market of significant size with which the Exchange has in place comprehensive surveillance sharing agreements and, thus, the Commission should approve this proposal.<sup>46</sup> In addition, the

<sup>46</sup> As described above, the Exchange continues to believe that bitcoin itself is particularly resistant to price manipulation. The geographically diverse and continuous nature of bitcoin trading makes it difficult and prohibitively costly to manipulate the price of bitcoin and, in many instances, the bitcoin market is generally less susceptible to manipulation than the equity, fixed income, and commodity futures markets. There are a number of reasons this is the case, including that there is not inside information about revenue, earnings, corporate activities, or sources of supply, making it particularly difficult to disseminate false or misleading information about bitcoin in order to manipulate; manipulation of the price on any single venue would require manipulation of the global bitcoin price in order to be effective; a substantial over-the-counter market provides liquidity and shock-absorbing capacity; bitcoin's 24/7/365 nature provides constant arbitrage opportunities across all trading venues; and it is unlikely that any one actor could obtain a dominant market share.

Further, bitcoin is arguably less susceptible to manipulation than other commodities that underlie ETPs; there may be inside information relating to the supply of the physical commodity such as the discovery of new sources of supply or significant disruptions at mining facilities that supply the commodity that simply are inapplicable as it relates to bitcoin. Further, the Exchange believes that the fragmentation across bitcoin platforms, the relatively slow speed of transactions, and the capital necessary to maintain a significant presence on each trading platform make manipulation of bitcoin prices through continuous trading activity unlikely. Moreover, the linkage between the bitcoin markets and the presence of arbitrageurs in those markets means that the manipulation of the price

Exchange also believes that there are sufficient other means to prevent fraudulent and manipulative acts and practices in the Shares, as was presented as an alternate means to demonstrate that a proposal is consistent with Section 6(b)(5) of the Act in the in the GraniteShares Disapproval Order. Specifically, the Exchange believes that the collective effect of the following factors are sufficient to prevent fraudulent and manipulative acts and practices in the Shares:<sup>47</sup> (i) The regulated nature of each of the firms that make up the MVBTCO; (ii) the notional volume of trading<sup>48</sup> and liquidity<sup>49</sup> available on the OTC Trading Desks; (iii) the principal to principal nature of the OTC Trading Desks; and (iv) in addition to its standard surveillance procedures, the Exchange will have in place a comprehensive surveillance sharing agreement with each of these firms prior to the Shares listing on the Exchange.<sup>50</sup>

Cboe believes that, if reviewed through the same lens as similar precedent, this proposal is consistent with the Act and should be approved. The Commission's approval of this or

of bitcoin price on any single venue would require manipulation of the global bitcoin price in order to be effective. Arbitrageurs must have funds distributed across multiple trading platforms in order to take advantage of temporary price dislocations, thereby making it unlikely that there will be strong concentration of funds on any particular bitcoin exchange or OTC platform. As a result, the potential for manipulation on a trading platform would require overcoming the liquidity supply of such arbitrageurs who are effectively eliminating any cross-market pricing differences.

<sup>47</sup> While not directly related to the issue of manipulation, the Exchange also notes that the Sponsor expects that the Shares will be purchased primarily by institutional and other substantial investors (such as hedge funds, family offices, private wealth managers and high-net-worth individuals), which will provide additional liquidity and transparency to the bitcoin market in a regulated vehicle such as the Trust. With an estimated initial per-share price equivalent to 25 bitcoin, the Shares will be cost-prohibitive for smaller retail investors while allowing larger and generally more sophisticated institutional investors to gain exposure to the price of bitcoin through a regulated product while eliminating the complications and reducing the risk associated with buying and holding bitcoin.

<sup>48</sup> The Sponsor has indicated that there are tens of millions to hundreds of millions of dollars of bitcoin traded on the OTC Trading Desks on a daily basis.

<sup>49</sup> Each constituent firm offers and will continue to offer firm, executable quotes of at least \$250,000 depth on both the bid and ask at all times.

<sup>50</sup> The Trust maintains crime, excess crime and excess vault risk insurance coverage underwritten by various insurance carriers that will cover the entirety of the Trust's bitcoin holdings. While the Trust remains fully confident in its system for securing its bitcoin, insurance coverage of all of the Trust's bitcoin holdings eliminates exposure to the risk of loss to investors through fraud or theft, which in turn eliminates most of the custodial issues associated with a series of Commodity-Based Trust Shares based on bitcoin.

any proposal to list and trade an ETP is not an endorsement of the underlying asset and especially is not a guarantee against the ETP being an extremely risky and/or volatile investment. Rather, it signifies that the benefits to end investors that want exposure to a particular asset class from having a regulated and transparent U.S. exchange traded vehicle outweigh the applicable risk of manipulation. With this in mind, Cboe believes that the Bitcoin Futures market is a significant, regulated market, especially when compared to the dry bulk shipping futures market described in the Approval Order, and therefore the Commission should approve this proposal. Further, even if the Commission were to determine that the Bitcoin Futures market is not a significant, regulated market, the Exchange believes that the regulated nature of each of the firms that make up the MVBTCO, the nature of trading and liquidity available on each of its constituents, and the comprehensive surveillance sharing agreements that the Exchange will have in place with each of the OTC Trading Desks constitute sufficient record evidence to demonstrate that there are other means to prevent fraudulent and manipulative acts and practices in the Shares.

For the above reasons, the Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.

### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act. The Exchange notes that the proposed rule change, rather will facilitate the listing and trading of an additional exchange-traded product that will enhance competition among both market participants and listing venues, to the benefit of investors and the marketplace.

### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

The Exchange has neither solicited nor received written comments on the proposed rule change.

### **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period

to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. By order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CboeBZX-2019-004 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.
- All submissions should refer to File Number SR-CboeBZX-2019-004. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All

submissions should refer to File Number SR-CboeBZX-2019-004, and should be submitted on or before March 13, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>51</sup>

**Eduardo A. Aleman,**

*Deputy Secretary.*

[FR Doc. 2019-02732 Filed 2-19-19; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-85121; File No. SR-OCC-2015-02]

### Self-Regulatory Organizations; The Options Clearing Corporation; Order Disapproving Proposed Rule Change Concerning The Options Clearing Corporation's Capital Plan

February 13, 2019.

#### I. Introduction

The Options Clearing Corporation ("OCC") submitted a proposed rule change in January 2015 that implements a plan to significantly increase OCC's capitalization ("Capital Plan" or "Plan"). After being approved by the Securities and Exchange Commission ("Commission" or "SEC"),<sup>1</sup> the Capital Plan is now before the Commission on remand from the Court of Appeals for the District of Columbia Circuit ("Court" or "D.C. Circuit").<sup>2</sup> As discussed in more detail below, upon further review, the Commission is disapproving the proposed rule change because the information before us is insufficient to support a finding that the Plan is consistent with the Securities Exchange Act of 1934 ("Exchange Act" or "Act") and the rules and regulations thereunder.

In particular, we conclude that the Commission does not have sufficient information to determine that the Capital Plan was adopted in a manner consistent with OCC's own rules, as required by Exchange Act Section 19(g). OCC's By-laws require that exchanges which are not shareholders of OCC be promptly provided with notice of certain matters that the Executive

<sup>51</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> Release No. 34-77112, File No. SR-OCC-2015-02 (Feb. 11, 2016), 81 FR 8294 (Feb. 18, 2016) ("Approval Order").

<sup>2</sup> See *Susquehanna Int'l Grp., LLP v. SEC*, 866 F.3d 442, 443 (D.C. Cir. 2017) ("*Susquehanna Opinion*"). OCC implemented the Capital Plan in 2015. Neither the Commission nor the Court stayed the implementation of the plan on review, and the D.C. Circuit did not vacate the Commission's approval order on remand. The Capital Plan therefore has remained in effect.

Chairman of OCC considers to be of competitive significance to those exchanges. No such notice was given during consideration of the Capital Plan. Based on the information before us, we cannot determine whether or how the Executive Chairman concluded that the Capital Plan lacked competitive significance such that notification was not required.

In addition, we conclude that we lack sufficient information to determine whether the Capital Plan imposes a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act, as prohibited by Section 17A(b)(3)(I) of that Act. Specifically, we cannot determine whether the Capital Plan, as implemented, has burdened competition. Nor do we have sufficient information to determine whether the dividend policy incorporated in the Capital Plan advantages the recipients of the dividends in a manner inconsistent with the Exchange Act.

We recognize that the Commission previously approved this proposed rule change. But we did so, in significant part, in reliance upon OCC's representations regarding the process through which the Plan was negotiated and developed by OCC and its Board.<sup>3</sup> The D.C. Circuit's *Susquehanna Opinion* makes clear that relying on such representations, without more, is insufficient. Rather, the Commission must critically evaluate the representations made and the conclusions drawn by OCC.<sup>4</sup> After conducting such an analysis on remand, and after giving the parties the opportunity to submit additional materials to the Commission, we have determined that OCC has failed to meet its burden to demonstrate that the Capital Plan is consistent with the Exchange Act in at least two respects, as noted above and explained below.

#### II. Background

OCC is registered with the Commission as a clearing agency and, as such, is a self-regulatory organization ("SRO") under the Exchange Act.<sup>5</sup> OCC is the only clearing agency for standardized U.S. securities options listed on SEC-registered national securities exchanges ("listed options").

<sup>3</sup> See, e.g., Approval Order at 8301, 8302, and 8305.

<sup>4</sup> *Susquehanna*, 866 F.3d at 447 ("the [Commission] should have critically reviewed OCC's analysis or performed its own."); *id.* at 448 ("the [Commission] cannot rely on OCC's process totally divorced from any examination of the Plan.').

<sup>5</sup> See 15 U.S.C. 78c(a)(26). OCC is also registered with the U.S. Commodity Futures Trading Commission as a derivatives clearing organization.