

RE: Release No. 34-80511 / April 24, 2017, In the Matter of Bats BZX Exchange, Inc.

Comments of Jonathan G. Harris, PhD, CFA.

This letter to recommend strongly that the SEC stand by its decision to deny approval for the trading of the Bitcoin ETF as proposed. The finding that we cannot be assured that investors would be protected against Bitcoin price manipulation is sound.

Most importantly there is significant evidence of attempts to manipulate the price of Bitcoin currently. In fact there is evidence that the creation of the Trust is in part motivated by a desire to increase the price of Bitcoin by marketing as an investment. Numerous articles and blogs have touted the positive impact of approval of the Trust on Bitcoin price<sup>1</sup>. Furthermore, Press accounts indicate that the creators of the COIN trust are significant investors in Bitcoin<sup>2</sup>.

The significant ownership of Bitcoin by the ETF managers as well as their dedication to the asset itself and ownership interest in an exchange upon which it trades represents a significant conflict of interest that can encourage attempts at manipulation. The managers of an investment trust should operate the trust considering just the interest of their investors.

As further evidence of the possible incentive to use the trust as a means of increasing the value of individuals' holdings and investments, I point out that creation of the ETF does not generate wealth or social good beyond increasing the wealth of the current holders. The existence of the ETF has no impact on the ability of Bitcoin to be used in commercial transactions, which is the stated usage of Bitcoin. Because the Bitcoin infrastructure is designed to keep the supply growing along a predetermined trajectory, the existence of the ETF does not change the supply of anything.

Finally, Bitcoin stands out as one of the few traded commodities that have no value do to its commercial utility or usage to hedge exposures that one incurs with commerce.

Evidence of manipulation can also be seen in the frequent speculative and erroneous news articles and websites touting fictitious advantages of Bitcoin as an efficient transaction mechanism. The quotes comparing the cost of transactions in Bitcoin with transactions done with credit and debit card networks are totally misleading<sup>3</sup>. For the past two years there have been articles touting the "explosive" growth in various developing countries; while in fact there is little evidence of significant usage in those countries. The articles speculating about future price increases strongly resemble those used in the pump-and-dump schemes of penny stocks; however because of the pseudo-anonymous nature of Bitcoin addresses we cannot identify whether such activity is carried out by Bitcoin holders or even identify the distribution of Bitcoin wealth.

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<sup>1</sup> <http://www.cnbc.com/2017/01/10/Bitcoin-etf-would-have-significant-upside--but-wont-happen.html> , and <http://www.newsbtc.com/2017/04/26/positive-Bitcoin-price-trend-expected-sec-reviews-Bitcoin-etf/>

<sup>2</sup> [https://dealbook.nytimes.com/2013/04/11/as-big-investors-emerge-Bitcoin-gets-ready-for-its-close-up/?\\_r=0](https://dealbook.nytimes.com/2013/04/11/as-big-investors-emerge-Bitcoin-gets-ready-for-its-close-up/?_r=0)

<sup>3</sup> Detail with respect to international money transfer are described in detail by <https://www.saveonsend.com/blog/bitcoin-money-transfer/> (April 17, 2017). See also reknown fraud expert Jeffrey Robinson's debunking of many Bitcoin misstatements in *BitCon: The Naked Truth About Bitcoin*, Jeffrey Robinson, Kindle edition, 2014.

Finally, it is my assessment and that of many others that over the long term, Bitcoin value will most likely be zero. It has one distinct niche where it outperforms other available instruments---the collection of payments for ransomware, other forms of extortion, and illegal activities.

Unlike any other commodity, including currency, Bitcoin has no intrinsic utility. Its price is entirely driven by speculation. While other instruments, such as stocks, can have a pricing driven by speculation, they represent the ownership of some potential source of value, such is intellectual property, a customer base, or reputation. Except for currencies, other commodities have usages in various industries. Currencies have utility because governments designate them as legal tender. Furthermore currency trades can be used to hedge risk businesses face in doing business across national boundaries.

Bitcoin's value rests solely in the potential of someone else to buy in at a higher price in the future. Bitcoin is not an efficient storage of wealth or an efficient means of carrying out transactions. In fact Bitcoin stands out as being extremely inefficient, because the security mechanism depends on the honest players consuming more electricity than an attacker would to make an altered blockchain of records appear valid.

Currently the electricity costs to mine Bitcoin and maintain the Blockchain is approximate \$650 Million/year for an asset with a total market capitalization of \$30.B. This represents just the costs to secure the ledger that defines Bitcoin ownership and excludes the costs of record keeping and cybersecurity costs incurred by third parties that actually store the private keys that convey ownership rights to the ledger entries.

I urge you to avoid allowing additional investors to end up holding the bag for the current Bitcoin stake holders by rejecting the application for the Bitcoin ETF to trade on the BATS exchange.

Sincerely yours,

A handwritten signature in cursive script that reads "Jonathan G. Harris".

Jonathan G. Harris, PhD, CFA.