

Dalia Blass  
Director, Division of Investment Management  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

August 22, 2018

Re: Van Eck response to Staff Letter: Engaging on Fund Innovation and Cryptocurrency-related Holdings (the "Staff Letter")

Dear Ms. Blass:

In September, the SEC will be re-evaluating the Van Eck application for an ETF based on Bitcoin futures. It would be a grave error to allow this ETF to proceed/trade for the same reasons previous applications were not approved.

It is a startling sign of the times that a reputable firm such as Van Eck would even contemplate jumping on the cryptocurrency bandwagon seeking to cash in on such a patently unsound phenomenon.

The Van Eck assertions of liquidity in what they call the "physical market" for BTC are specious. There is practically no liquidity (ability to exchange BTC for real money) in the underlying markets for trading BTC. It is a sham and a house of cards. It would be impossible to exchange one tenth of one percent of the so-called BTC "market cap" for actual money such as USD without crashing this market. A rush for the exits of such magnitude—as could occur at any moment were an outbreak of "FUD" to occur—would likely collapse the entire fraudulent crypto-currency complex, not to mention triggering inability of the rare honest exchanges such as Coinbase to meet their obligations.

A snapshot of BTC trading as of the day I am writing this, 8/22/18, reveals a BTC "market cap" of \$115 billion USD, with trading volume (top 25 BTC trading pairs on various exchanges) summing to \$9.1 billion. A closer look at this trading (Appendix A) reveals that hardly any of it consists of actual trading against real money USD. The top 25 BTC trading pairs trade BTC against:

- USDT (Tether) tokens<sup>1</sup> (about 50%);
- USD-denominated balances in exchanges that neither accept USD deposits nor offer USD withdrawals (35%);
- USD-denominated balances in exchanges where it is impossible to tell if they actually hold USD (3.5%);
- USD in regulated exchanges that actually hold USD and support USD withdrawals (1.5%)
- JPY (4%);
- other cryptocurrencies (6%).

This is not liquidity, this is a flammable theater filled to capacity but with only one single-file exit.

Moreover, the combustibles are not limited to BTC. <https://www.coingecko.com/en> tracks over 2400 unbacked cryptocurrencies which trade mostly against BTC, ETH, USDT. Hardly any of them trade at all against real money, let alone on regulated exchanges or entities offering any transparency as to their

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<sup>1</sup> An even higher proportion if you include the equally sketchy USDT imitator, CKUSD.

fiduciary arrangements. To exit means selling them for BTC or ETH and then selling the BTC or ETH in the handful of exchanges that provide exchange all the way to real money. But when the panic eventually arrives, entities such as Coinbase will be overwhelmed, their trading balances of real money depleted while they choke on incoming BTC and ETH for which there is no external bid that might enable them to offload it and bring trading balances back into trim.

A few comments regarding Tether (USDT) are also in order.

There are serious grounds to suspect that neither Tether nor its alter ego BitFinex—the former of which claims to back its USDT token 1:1 with actual USD in bank accounts, and the latter which purports to trade cryptocurrencies against USD—actually hold USD in the claimed quantities. Moreover, to the extent they hold any USD bank deposits at all, they most likely would be held only in uninsured accounts at obscure and, quite possibly, unsafe or even shady banks. No bank anywhere in the world hoping to maintain relationships with reputable correspondents or direct access to payments infrastructures would knowingly bank such entities. To the extent Tether/Bitfinex actually holds USD bank deposits, they are either in banks that do not realize the nature/ownership of the funds, or in banks domiciled in countries with lax regulation. In either case, if there were indeed such large deposits, any attempt to withdraw or make payments leading to outflow of a significant proportion of such balances would almost certainly exceed the liquidity of the bank and possibly trigger its failure.

The fact that the CFTC has continued to drag its feet on extradition and criminal prosecution of the principals of the combined Tether/Bitfinex operation calls the competence, integrity—indeed the legitimacy—of US regulatory arrangements into question. It may be postulated that the leadership of the CFTC contains an excessive proportion of “crypto fan boys” as evidenced by its former Commissioner lending his name and reputation to a crypto scheme nearly as ill-conceived as Venezuela’s Petro. The CFTC’s conspicuous foot-dragging on the Tether matter and apparent reluctance to prosecute raises concerns that certain CFTC staffers are holding back out of concerns of market disruption in the unbacked cryptocurrency space. In fact, however, if they took their legislative mandate seriously, they would be making such disruption an urgent priority, ideally triggering the collapse of this entire ongoing massively unsound cryptocurrency network before it expands further such that its collapse would put broader financial markets at risk.

I hope the SEC does not also end up being complicit in allowing this unprecedented global spasm of malinvestment to proceed unchecked – as would be the tendency were this ETF to be approved.

Respectfully submitted,

Dr. Douglas Jackson

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PS: I have no position, directly or indirectly, long or short, in any cryptocurrency.

## Appendix A

rank vol.	by	Exchange	Pair	volume	subtotal	%	category
8		Quoine	BTC/JPY	166,257,229			
13		bitFlyer	BTC/JPY	73,373,055			
16		Fisco	BTC/JPY	63,667,909			
17		Zaif	BTC/JPY	63,666,609	366,964,802	4.0%	JPY
2		BitMEX	BTC/USD	3,190,022,166	3,190,022,166	35.1%	no USD
4		Bitfinex	BTC/USD	262,906,281			
18		Simex	BTC/USD	61,976,966	324,883,247	3.6%	maybe USD
12		Coinbase Pro	BTC/USD	78,156,611			
21		Bitstamp	BTC/USD	54,252,668	132,409,279	1.5%	USD
1		BitForex	BTC/USDT	3,267,763,030			
3		Binance	BTC/USDT	361,529,780			
6		OKEx	BTC/USDT	190,766,369			
7		Fcoin	BTC/USDT	189,998,696			
10		Huobi	BTC/USDT	142,391,460			
11		ZB.COM	BTC/USDT	78,456,804			
14		HitBTC	BTC/USDT	72,923,309			
15		OOBTC	BTC/USDT	66,924,071			
19		Bit-Z	BTC/USDT	55,722,861			
20		DigiFinex	BTC/USDT	54,295,237			
23		CoinEx	BTC/USDT	51,944,837			
24		CoinBene	BTC/USDT	47,802,362	4,580,518,816	50.3%	USDT
22		ZB.COM	DASH/BTC	52,339,856			
5		DOBI trade	ETH/BTC	255,798,521			
25		Binance	ETH/BTC	47,635,918			
9		DOBI trade	LTC/BTC	149,993,497	505,767,792	5.6%	other cryptos
		overall total		9,100,566,102		100%	total