



October 24, 2018

Via Electronic Mail (rule-comments@sec.gov)

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F St, N.E.
Washington, DC 20549-1090

Re: File No. SR-CboeBZX-2018-040: Proposal to List and Trade SolidX Bitcoin Shares Issued by the VanEck SolidX Bitcoin Trust

Omniex Holdings, Inc. (“Omniex”) submits this letter in response to the request for public comment by the Securities and Exchange Commission (“Commission”) regarding a proposal (“Proposal”) by Cboe BZX Exchange, Inc. (“Exchange”). Pursuant to the Proposal, the Exchange seeks to list and trade shares of SolidX Bitcoin Shares (“Shares”) issued by the VanEck SolidX Bitcoin Trust (“Trust”) under BZX Rule 14.11(e)(4). We appreciate the opportunity to provide our perspective and submit this letter in support of the Proposal.

About Omniex. Omniex is a purpose-built technology company designed from the ground up to handle the unique market challenges faced by institutional investors seeking direct exposure to bitcoin and other crypto-assets. We have built an end-to-end technology solution addressing institutional needs for portfolio and risk management, trade execution, investment operations and regulatory compliance.

Our team possesses an unrivaled combination of financial services, fintech and crypto-asset expertise. As previous senior executives at some of the largest financial institutions in the world and founders of successful Silicon Valley startups, Omniex has the nimbleness to match pace with crypto-asset innovation, as well as the deep experiences and connections required to create a true institutional-grade technology solution for crypto-asset investing and trading.

Perspective on Crypto-Asset Marketplace. Since its conception in 2009, bitcoin has achieved widespread adoption and legitimacy, with the CFTC designating bitcoin as a commodity. Omniex believes bitcoin and certain other cryptocurrencies have collectively developed into a separate and distinct asset class to which retail and institutional investors increasingly seek exposure. Despite rising investor interest, the primary means of gaining access is via direct investment through bitcoin spot market exchanges. But due to current infrastructure limitations and regulatory constraints, institutional investors find it infeasible to invest directly, which means the bitcoin market is left largely to retail investors. While institutional

demand for exposure to crypto-assets is undeniable and continues to build,¹ three fundamental issues prevent wider adoption by these more sophisticated investors:

- the crypto exchange marketplace is extremely fragmented;
- the current crypto-asset infrastructure is retail-oriented; and
- there is a definite lack of institutional-quality solutions to concerns around custody, security² and control.

While Omniex, along with its partners, continues to innovate and further develop the broader crypto-asset ecosystem to better support the needs of institutions when directly investing in crypto-assets, Commission approval of the Proposal would open an alternative avenue for institutions to diversify their portfolios to gain exposure to bitcoin. Establishment of the Trust would provide institutions with a familiar, easily accessible, and secure financial product listed and traded on a national securities exchange and therefore subject to meaningful regulation and disclosure applicable to listed ETPs.³ Approval would also allow institutional investors to remain patient as the underlying crypto-asset ecosystem iterates and continues to evolve and mature into a healthier more mature market that is better fulfill institutions' more rigorous trading demands.

* * *

Our letter responds to selected questions⁴ posed by the Commission concerning the Proposal and also touches upon several related policy considerations recently raised by Commission staff.⁵

A. Concerns Regarding Manipulation of bitcoin Prices

Question 1. *What are commenters' views of the Exchange's assertions that ... the geographically diverse and continuous nature of bitcoin trading makes it difficult and prohibitively costly to manipulate the price of bitcoin; that trading on inside information regarding bitcoin is unlikely; that the fragmentation across bitcoin markets, the relatively slow speed of transactions (compared to equity markets), and the capital necessary to maintain a significant presence on each trading platform make manipulation of bitcoin prices through continuous trading activity unlikely; that manipulation of the price on any single venue would require manipulation of the global bitcoin price to be effective; that a substantial OTC bitcoin market provides liquidity and shock absorbing capacity; that bitcoin's "24/7/365 nature" provides constant arbitrage opportunities across all trading venues; and that it is unlikely that any one actor could obtain a dominant market share?*⁶

¹ See e.g., Announcement regarding Fidelity Digital Assets, a crypto trading platform with a goal of making bitcoin and other digitally-native assets more accessible for investors. Available at https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/Fidelity-Digital-Assets-Launch-102018.pdf.

² See CCN Article, "Over Half of All Crypto Exchanges Have Security Vulnerabilities" (October 20, 2018). Available at <https://www.ccn.com/over-half-of-all-crypto-exchanges-have-security-vulnerabilities-report/>.

³ See the registration statement filed with the Commission on Form S-1 (File No. 333-212479).

⁴ See Commission Order Instituting Proceedings to Determine Whether to Approve or Disapprove a 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 (the "SEC Order").

⁵ See Letter by Dalia Blass, Director of Investment Management: Engaging on Fund Innovation and Cryptocurrency-related Holdings (January 18, 2018).

⁶ See SEC Order, Question 1.

Omniex's View. We generally agree with the Exchange's view that there are numerous factors that make it difficult and prohibitively expensive to manipulate the price of bitcoin in the spot markets. Moreover, approval of the Trust would foster institutionalization of the bitcoin ecosystem and lead to further mitigation of potentially manipulative activity.

First, trading of bitcoin occurs continuously across many different venues in geographically diverse locations. We agree with one commenter on a similar proposal that, in some respects, this dispersion renders the bitcoin market generally less susceptible to manipulation than other more established markets for equity, fixed income, and commodity futures.⁷ In its current state, however, the relative thin liquidity and the retail dominated nature of crypto-asset trading in general do make the market less resistant to market manipulation than other more established markets, which is true of any market without mass institutional adoption. That said, new platforms and solutions, such as liquidity aggregation platforms like Omniex, derivatives offerings such as those from LedgerX, CME and Cboe provide additional levers to ensure market stability. This is all part of the market maturation process and should not be considered a hurdle in approving the Proposal.

Second, a healthy OTC market already exists in parallel to the exchange markets. Like other bi-laterally traded instruments such as spot commodities and FX, OTC market participants interact in a principal-to-principal capacity via pre-established bilateral relationships and they typically negotiate trades in significantly larger size than quotes displayed on bitcoin exchanges. This dynamic of negotiability and sizeable trades acts to essentially buffer the OTC market against potential price manipulation via small orders placed on an individual bitcoin exchange. Although OTC desks may generally use pricing in bitcoin spot markets as a reference, OTC participants may ignore aberrant prices and smaller potentially manipulative trading activity at discrete exchanges. In addition, most OTC trading desks will hedge a portion of their trades via crypto exchanges, which creates a positive feedback loop where professional traders on OTC desks are interacting with retail exchanges to keep the prices and spreads in check.

Third, unlike with traditional corporate securities where officers, directors, and employees may attempt to trade ahead of significant undisclosed corporate news (*i.e.*, revenues, earnings, and corporate activities), there are no bitcoin insiders and there is no material nonpublic information upon which to insider trade. Fourth, as noted by another commenter in a similar proposal, attempting to disseminate false or misleading information about bitcoin is very difficult given that (1) the aggregate supply is determined by a transparent and straightforward algorithm, and (2) all relevant information necessary to price bitcoin is already publicly available.⁸

Fifth, although prices may vary across individual bitcoin spot market exchanges as these venues are not linked to one another, the overall market price should be relatively consistent since price differentials between bitcoin exchanges create opportunities for market participants to take advantage of. Finally, the arbitrage mechanism described by the Exchange in the Proposal would incent authorized participants to offset any attempted manipulative trading activity in the bitcoin spot market. Approval of the Proposal would incent authorized participants to enter and engage in the bitcoin market and their presence along with other arbitrageurs would therefore serve to mitigate the risk of isolated manipulative activity in the underlying bitcoin market as well as the Shares.

⁷ See Craig Lewis, "SolidX Bitcoin Trust: A Bitcoin Exchange Traded Product" (Feb 2017) submitted to comment file SR-NYSEArca-2016-101.

⁸ *Id.*

B. The OTC bitcoin Market

Question 2. *What are commenters' views on the Sponsor's assertion, described by the Exchange in the Notice, that "the OTC desks have a better measure of the market than any exchange-specific reference price, whether individually or indexed across multiple exchanges"? What are commenters' views on the Exchange's representation that, in the OTC markets, 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? What is the current typical number and volume of transactions on the OTC market? What are commenters' views on whether the liquidity of the OTC bitcoin market, which would be used as the reference market for pricing the proposed ETP's holdings, is sufficient for efficient bitcoin price discovery? What are commenters' views on whether the liquidity of the OTC bitcoin market is sufficient to support efficient arbitrage between the price of the Shares and the spot price of bitcoin? What are the numbers of active traders, market makers, and other liquidity providers on the OTC bitcoin market? To what extent is trading in the OTC bitcoin market subject to regulation?*⁹

Omniex's View. Omniex believes the liquidity of the OTC bitcoin market, which would be used as the reference market for pricing the proposed ETP's holdings, is sufficient for efficient bitcoin price discovery. We concur with the Exchange, OTC desks are better positioned to gauge market prices than any exchange-specific reference price. Also, the nature of principal-to-principal trading in the OTC segment combined with the larger trade size should effectively remove the ability of potential manipulators to impact OTC pricing mechanisms with smaller trades as they might otherwise be able to accomplish on an individual bitcoin exchange.

Many of the largest professional trading firms around the world have launched OTC trading desks for crypto-assets. Even more are in the processes of doing so. The feedback loop of OTC desks executing trades and hedging on the crypto exchanges creates a mechanism that continuously keeps the global bitcoin market in check. The recent reduction in retail volume also removes much of the "hot money" that poured into the market in the beginning of the year. Recent volatility of bitcoin has reduced to the point that, at the time of this letter, it is now less than that of the most popular indexes from traditional finance sectors. Over the last month, bitcoin's price has moved only 0.45% whereas traditional finance markets have experienced greater volatility, including the DOW (-3.62%), NASDAQ-100 (-5.60%) and S&P 500 (-7.35%).¹⁰

C. Benefits of Institutionalization and Efficiency of the Arbitrage Mechanism

Question 3. *What are commenters' views regarding Exchange statements ... that institutional demand will broaden the investor base and act to buffer against manipulation? Do commenters agree or disagree with the assertion that Authorized Participants and other market makers will be able to engage in arbitrage and to make efficient and liquid markets in the Shares at prices generally in line with the NAV?*¹¹

⁹ See SEC Order, Question 2.

¹⁰ See Bitcoin Magazine, "The Past Month, Bitcoin Has Been Less Volatile Than NASDAQ, DOW and S&P 500" (Oct. 24, 2018). Available at <https://bitcoinmagazine.com/articles/past-month-bitcoin-has-been-less-volatile-nasdaq-dow-and-sp-500/>.

¹¹ See SEC Order, Question 3.

Omniex's View. Institutions are highly interested in gaining exposure to bitcoin but, for numerous reasons, many find cryptocurrencies to be an extremely difficult asset class in which to invest. Omniex believes the Trust would create a new investable asset class allowing greater institutionalization of bitcoin that will ultimately benefit all investors, including retail, as institutions will add intellectual capital and discipline to the bitcoin market. Increased access and participation by institutional market participants would make the bitcoin spot market in which retail participates more liquid, less volatile, and more resilient to attempted manipulative trading practices. Our view on this matter appears to be aligned with that of Commissioner Hester M. Pierce, who noted in a similar proposal: “[g]reater participation by institutional investors in the bitcoin market would help to pressure exchanges to bolster their defenses against theft, encourage greater investment in custody solutions in the bitcoin space, and make it more difficult for market manipulators to escape the notice of their fellow market participants.”¹²

Omniex agrees with the assertion that authorized participants and market makers will have a strong economic incentive to execute arbitrage trades to exploit any significant divergence between the price of bitcoin and the price of Shares. The arbitrage mechanism, which will rely on the same creation and redemption process as other listed and traded ETPs, will incent authorized participants to reduce any premium (or discount) between Share trading prices and intraday NAV. This dynamic will drive efficient and liquid markets in the Shares and keep prices in line with NAV.

D. Unreported OTC bitcoin Trading by the Trust

Question 9. *The Exchange represents that ... OTC bitcoin trading is typically private and not regularly reported, and that the Trust does not intend to report its OTC trading. What are commenters' views on how the Trust's unreported OTC trades may affect the calculation of the Trust's NAV and the ability of market makers to engage in arbitrage?*¹³

Omniex's View. Unreported OTC trading activity by the Trust should not impact the calculation of NAV by the Trust or inhibit the ability of market participants to engage in arbitrage. As noted by the Exchange, trading in the OTC bitcoin market is private and not regularly reported, so unreported trading activity by the Trust will be consistent with the norm for the OTC segment of the market. Despite this lack of trade reporting, the Trust will nonetheless have sufficient information necessary for intraday pricing and to establish NAV; both intraday Share pricing and NAV will be calculated based on the MVBTCO, which incorporates real-time mid-point executable bid/ask quotes of constituent bitcoin OTC platforms. Although bitcoin OTC pricing and executions are not publicly reported, active OTC desks can conduct effective price discovery via their view of the OTC market and their ability to use pricing on bitcoin exchanges as a reference.

OTC desks trade with institutional and sophisticated investors and their pricing is not subject to manipulation concerns regarding aberrant pricing that may occasionally occur on bitcoin exchanges. These OTC platforms will comply with applicable federal regulations concerning AML, KYC and BSA and are identifiable and accountable to regulators as they will be registered with the CFTC.¹⁴ Finally, arbitrage

¹² See Dissent of Commissioner Hester M. Pierce to Release No. 34-83723; File No. SR-BatsBZX-2016-30, available at <https://www.sec.gov/news/public-statement/peirce-dissent-34-83723>.

¹³ See SEC Order, Question 9.

¹⁴ See SEC Memorandum of meeting with representatives of Van Eck, SolidX Management, and Cboe BZX Exchange (August 1, 2018).

activity would not be inhibited by the unreported nature of OTC trading given the tremendous transparency provided by the bitcoin exchanges.

E. Relationships Among the OTC and Wider bitcoin Exchange Markets

Question 10. *What are commenters' views on the relationship between trading in the OTC bitcoin market and the wider global bitcoin market? What are commenters' views on the circumstances pursuant to which the OTC bitcoin market may trade at a premium or discount to the global bitcoin market? What are commenters' views on whether or not the OTC bitcoin market would provide a measure of insulation from erratic or dislocated trading in the global bitcoin market?*¹⁵

Omniex's View. There is a definite nexus between trading in the OTC bitcoin market and the wider bitcoin market. In fact, Omniex's technology platform is designed to enhance the connection between these distinct markets by facilitating client trading across both the OTC segment as well and the exchange segment and, in fact, many of our clients are active in both markets.

Whether trading in the OTC market occurs at a premium or discount related to global bitcoin market is largely a function of existing market conditions and desired trade size. We believe that the methodology of the MVIS Bitcoin OTC Index ("MVBTCO") and reliance on the OTC platforms should act as an effective buffer to insulate the index data from aberrant smaller trades on individual bitcoin exchanges.

F. Suitability of bitcoin as an ETP

Question 11. *What are commenters' views on the cost and the efficiency of arbitrage across the various global markets for bitcoin? What are commenters' views generally with respect to the liquidity and transparency of the bitcoin market, the bitcoin markets' susceptibility to manipulation, and thus the suitability of bitcoin as an underlying asset for an ETP?*¹⁶

Omniex's View. As discussed above, we believe certain market participants are sufficiently connected to the various global markets for bitcoin and are able to efficiently engage in arbitrage activity. Regarding susceptibility to manipulation of the bitcoin market, there is no market that can credibly claim to be completely immune from attempted manipulative activity by bad actors. The bitcoin market is not subject to any potential manipulation scheme that does not also exist for other commodity-based ETPs. We concur with the Exchange's assertion that certain characteristics of the bitcoin market (fragmentation across bitcoin platforms, relatively slow transaction speed, and the need to maintain sufficient capital at each trading platform) make manipulation of bitcoin prices through continuous trading activity unlikely. In addition, as noted in the Proposal, bitcoin is arguably less susceptible to manipulation than other commodities that underlie ETPs as concerns about inside information relating the supply of physical commodities and dissemination of misleading information are inapplicable to bitcoin.

G. Institutional Investor Focus

Question 15. *What are commenters' views of the Exchange's assertions that transacting in the Shares will be geared toward more sophisticated institutional investors and will be cost-prohibitive for smaller retail investors? ... What are commenters' views of the Exchange's assertions that the Sponsor believes that*

¹⁵ See SEC Order, Question 10.

¹⁶ See SEC Order, Question 11.

*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 ...?*¹⁷

Omniex’s View. Omniex agrees with the Exchange’s expectation that, given the estimated initial per-share price of 25 bitcoins, the Shares will be traded primarily by institutional and other substantial investors and will be cost-prohibitive for smaller retail investors. It is our firm belief that demand from larger and more sophisticated institutional investors accessing bitcoin through investment in a regulated product like the Shares will expand bitcoin’s overall investor base and add much needed discipline and intellectual capital to the pool of investors, which will drive many benefits in the bitcoin market including (1) providing additional liquidity and transparency and (2) making it harder to successfully manipulate bitcoin in the various spot trading venues.

We believe that approval of the Proposal would open an avenue otherwise unavailable for institutions for gaining exposure to bitcoin. Commission approval of the Trust would provide institutions with a way to gain exposure to bitcoin via a familiar, easily accessible, and secure financial product traded on a regulated securities exchange. This will eliminate the complications and reduce the risks institutions must contend with when buying and holding bitcoin directly, thereby expanding the investor base to include both retail customers and institutions.

H. Insurance Coverage and Security

Question 18. *What are commenters’ views of whether the proposed insurance coverage would affect trading in the Shares or in the underlying bitcoins? What are commenters’ views regarding the Trust’s proposed security, control, and insurance measures?*¹⁸

Omniex’s View. As noted by the Exchange, the Trust will maintain comprehensive insurance coverage, underwritten by various insurance carriers, designed to protect investors against crime and loss of bitcoin held by the Trust due to certain operational risks inherent related to bitcoin. The insurance will cover all of the Trust’s bitcoin holdings and eliminate investor exposure to risk of bitcoin loss via theft, destruction, computer fraud, and loss of private keys necessary to access bitcoin held by the Trust, among others losses. In addition to insurance protection, the Trust will secure bitcoin using industry best practice of multi-signature cold storage wallets and will maintain cold storage wallet backups in geographically distributed locations for disaster recovery purposes.

In our view, the various investor safeguards built into the Trust - including security and insurance measures - should effectively shield investors from operational risks typically associated with direct bitcoin investment. In addition, these measures also address many of the associated custodial issues that present regulatory barriers and counterparty risk barriers that otherwise prevent greater institutional participation in bitcoin investment.

* * *

Despite growing institutional interest in exposure to bitcoin, several practical issues (immature infrastructure, clearing and custody difficulties, and operational risks) conspire to prevent greater direct

¹⁷ See SEC Order, Question 15.
¹⁸ See SEC Order, Question 18.

investment by institutional investors, which leaves retail investors largely alone in the bitcoin market. Regulators have recognized the growing institutional interest in this asset class but have raised a number of questions regarding the bitcoin market, including a concern that there is greater opportunity for fraud and manipulation and substantially less investor protection than offered in traditional securities markets.¹⁹ Approving the Proposal will provide institutional investors with the ability to access and gain exposure to bitcoin in a manner not otherwise available to them via direct investment.

Omniex greatly appreciates this opportunity to submit our views in response to the Commission’s request for comment and would be pleased to discuss these comments in greater detail. Please contact Hu Liang ([REDACTED]) or Tom Eidt ([REDACTED]) if you have any questions regarding the comments in this submission.

Sincerely,



Hu Liang
CEO



Tom Eidt
General Counsel

Cc:

- Jay Clayton, Chairman
- Kara M. Stein, Commissioner
- Robert J. Jackson, Jr., Commissioner
- Hester M. Pierce, Commissioner
- Elad L. Roisman, Commissioner
- Brett Redfearn, Director, Division of Trading and Markets
- Dalia Blass, Director, Division of Investment Management

¹⁹ See SEC Chairman Jay Clayton, “Statement on Cryptocurrencies and Initial Coin Offerings (Dec. 11, 2017), available at <https://www.sec.gov/news/public-statement/statement-clayton-2017-12-11>.