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Bloc10 Response SR-CboeBZX-2018-040 www.bloc10.com by Joseph Gelet

September 25, 2018

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OFFICE OF THE SECRETARY

To: Brent J Fields, Secretary
Securities and Exchange Commission

Re: SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84231; File No. SR-CboeBZX-2018-040)
Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; 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

Comments from Bloc10 LLC www.bloc10.com
Prepared by Joseph Gelet, Chief Strategy Officer
Author: Splitting Bits – Understanding Bitcoin and the Blockchain www.bloc10.com/splittingbits
Series 3, 34 (South Carolina Insurance Licenses Life, Health, and accident)

1. Bitcoin is MORE susceptible to manipulation than ANY other asset, because it is a completely OPAQUE market. We do not know who created Bitcoin, there is no accountability for who are the account holders. See this article on Medium about "Spoofy" a mysterious account holder who was manipulating the price of Bitcoin using market making techniques like order 'spoofing' - https://hackernoon.com/meet-spoofy-how-a-single-entity-dominates-the-price-of-bitcoin-39c711d28eb4

2. Currently Bitcoin is completely unregulated. The exchanges that offer Bitcoin trading are unregulated. The 'regulated' contracts such as the Bitcoin Futures Contracts are effectively OTC derivatives that are cash settled and thus have no connection to the underlying at all. CBOE and CME match buyers and sellers the contract is self-clearing. There is no such thing as "Bitcoin liquidity." It has been found that Coinbase is making markets in Bitcoin, up to 20% of customer volumes, and this is not being disclosed. http://bloc10.com/exposed-coinbase-trading-against-customers-20-percent-volume-internal-flow/ Nor is Coinbase a registered broker-dealer, Futures Commissions Merchant (FCM), or exchange.

3. It is possible to engage in arbitrage, theoretically, but it's not clear if it would be possible,

feasibly. If we take the example of the Bitcoin whales, they generally have not done anything with their BTC in their wallets, it just sits there. The only whale who has sold assets is the Mt.Gox trustee. The size required to manipulate markets and engage in arbitrage and manipulation of an ETP or ETF would be substantial (in the hundreds of millions or billions of dollars). So the entities in the world as potential manipulators would be limited to those groups with access to that kind of cash. Could a government do it? Sovereign Wealth Fund? Russian Government? Norway's SWF is worth more than $1 Trillion[1], they have the capital to do something like this – but would they take the risk? **It's possible, but not probable.**

4. If we look at the case of Mutual Fund Market Timing, even with regulated, transparent product it is possible to find a loophole and exploit it. https://en.wikipedia.org/wiki/2003_mutual_fund_scandal
Bitcoin is neither regulated nor transparent. There are more than 1,000 'zombie' addresses of Bitcoin that control a majority of the supply (also referred to as 'whales'). If these addresses were activated, it could collapse the price by 90% or more in minutes. There is no benchmark for Bitcoin – Bloc10 has created the BIT FIX http://www.totalcryptos.com/fix but it is not mentioned or used. We have included a proprietary anti-manipulation algorithm into the price. We believe that such a solution is the only protection for manipulation in opaque, unregulated markets. Surveillance works in transparent, regulated markets.

5. Bitcoin futures do not impact the potential manipulation of Bitcoin, because they are actually not connected to Bitcoin at all. There is no 'Bitcoin settlement' so the Bitcoin futures market works like CFDs, they are not connected to the underlying market.

6. This is a good start however it raises the questions why only in the U.S. ? The majority of Bitcoin is traded outside the U.S., so why not include foreign exchanges as well? A

[1] https://en.wikipedia.org/wiki/Government_Pension_Fund_of_Norway

better approach would be to have a third party, such as a Moody's, such as Bloc10 has proposed with the BIT FIX, who provides an indexed benchmark price at 4:00 such as the BIT FIX price here:

www.totalcryptos.com/fix

https://www.totalcryptos.com/fix

Home | Total Cryptos | Market | BIT FIX | FX | Arbitrage | ICO | About | Register | Portal

Price of TC 100: $79 | Total Cryptos Membership | Total Market Cap in USD: $210,541,000,000 | Free Registr

BIT FIX is the Official FIX for Crypto Currencies, hosted at http://totalcryptos.com/fix posted every day at 4:00 EST (NYC Time) Daily 7 days a major currencies, on major Cryptos. For additional currencies or to list your own token as part of the FIX, contact Bloc10 or signup for zDATA. BIT FIX service.

BITFIX

DATA REFRESH IN

Next Bit Fix in

06:21:25

9:39 AM
Monday, September 24th 2018 (EDT)
Time In New York, NY

THE BIT FIX

Name	Pair	Price	Date
BTC	BTCUSD	$6,689.99	Sunday, September 23, 2018 4:00 PM
BTC	BTCCHF	₣6,650.12	Sunday, September 23, 2018 4:00 PM
BTC	BTCJPY	¥745,947.21	Sunday, September 23, 2018 4:00 PM
BTC	BTCSEK	kr59,271.03	Sunday, September 23, 2018 4:00 PM
BTC	BTCCAD	$8,711.37	Sunday, September 23, 2018 4:00 PM
BTC	BTCNOK	kr54,954.12	Sunday, September 23, 2018 4:00 PM
BTC	BTCEUR	€5,758.84	Sunday, September 23, 2018 4:00 PM

7. This is a good start but by itself this is not a robust information algorithm methodology. There needs to be some sort of anti-gaming protections built into the system that has some sort of intelligence.

8. When we rely on humans to determine what is failure it is a slippery slope in an algorithmic world, this is human discretion that could be itself subject to manipulation. The process should be algorithmic and quantitative.

9. On June 6, 2012, NFA issued a Complaint charging ILQ with offsetting forex trades with unregulated counterparties; failing to report counterparties to NFA; On August 28, 2012 NFA fined ILQ, a Retail Foreign Exchange Dealer, $50,000.

https://www.nfa.futures.org/basicnet/Case.aspx?entityid=0367140&case=12BCC00018&contrib=NFA

Basically, ILQ was running a second liquidity pool in addition to their main one, and the participants were not registered as such, and it was not disclosed. This seems very similar. Bitcoin is different than foreign exchange, however – both are unregulated OTC markets. The huge difference though is with FX, 95% of the participants are highly regulated banks. Bitcoin doesn't have a 'central bank' that monitors or controls the flows of Bitcoin and thus there is no way to stop market catastrophe. What if Bitcoin is hacked and the price goes to zero? What will happen to the ETP in that case?

10. The only arbitrage left in the Bitcoin market is 'regulatory arbitrage' such as we are seeing with the "Kimchi Premium" – because of the regulatory firewall around Korea, Bitcoin can be 10% - 20% different in Korea. In Venezuela, Bitcoin can be even more different because of the black market in Bitcoin mining there. This is no different than black markets for currency, but they have no real impact on the global price, they are isolated and irrelevant unless you are directly trading in these black markets which is often illegal (in the case of Venezuela, the government has explicitly forbidden Bitcoin, but people do it secretly).

11. Bitcoin is fairly liquid but it is subject to forces that traditional markets are not. For example, Bitcoin could be 'hacked' – a rare but possible scenario suggested by some in the

community for example someone who worked for NSA who has seen the computing power they have.

12. The US does not represent a majority of Bitcoin trading. It is growing, but according to both anecdotal and empirical estimates USA represents 10% - 20% of the global market. 50% is way off.

13. "Surveillance Sharing" is applicable only for regulated markets. Crypto exchanges are not going to share information about their trading activities, they don't even share information about their owners. These operations are big black holes. This is changing, perhaps when there are more regulated exchanges such as Gemini, such a consideration could be reconsidered. Groups like tZERO are establishing regulated trading venues of Crypto securities, compliant with SEC rules. There are not a sufficient number of these institutions to make an impactful statement about 'surveillance sharing' – for example tZERO has said they will only complete their token offering before the end of this year, so there is no date when their exchange will go live.

14. Gemini does not have substantial market share compared to Bitfinex, Binance, HitBTC, and others.

Gemini is not significant or to say more precisely, not THE MOST significant exchange in the world, meaning that traders are not FORCED to trade on Gemini, so if someone wanted to manipulate the market, they could avoid Gemini, thus nullifying this feature.

15. Crypto has no business in traditional markets, these are not the right questions to be asking. It is perfectly plausible and rational to offer Bitcoin to retail investors it is just another asset class, just as FX recently became an asset class. Bitcoin is a "Crypto" currency but not so different than a 'foreign' currency there are legal differences and in the case of Bitcoin technical differences. There is no place for Bitcoin on the NASDAQ or NYSE. The proposer should have done this in the reverse – they should propose a regulated Crypto Securities Exchange, and the ETP would trade on it. The problem is from a technical perspective, you are trying to run a Windows application on a LINUX system. The question is not about manipulation and markets – Bitcoin represents a completely new paradigm of computing which has nothing to do with the current paradigm running NYSE, NASDAQ, CME.. so any Bitcoin related ETF or ETP will suffer the same problems, relying on the stability of the legacy system (NASDAQ) with all the benefits of the alternative system (CRYPTO) bear in mind the reason Bitcoin went up so much is because it exists on a PARALLEL network.

16. It would be irrelevant if there is a minimum.

17. It is irrelevant.

18. Bitcoin insurance is a completely different topic which needs separate examination. However, consider that with a Bitcoin theft it represents a 'total loss' similar to car wreck or Hurricane. During bad storms like Andrew in 1992 in South Florida many insurance companies simply went out of business. It is all well and good until a big event occurs, for example Bitcoin being hacked and the value evaporating overnight. If that happened the Bitcoin insurance agencies would also evaporate as there would be no other asset to 'hedge' the risk out, for example. Insurance companies manage risk professionally and can insure about anything, a Florida company offers policies protecting against alien abduction, they sold 30,000 policies. But practically what happens in an event like a Bitcoin- zero? The answer is that all

related industries, such as insurance, would also be zero.

/s
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*We have included comments from previous file number as they apply to this as well.

34 17 CFR 200.30-3(a)(57).