

To whom it may concern,

I am writing to raise concerns of some risks of bitcoin ETF, which are caused by unique nature of the underlying asset of crypto.

Firstly, in case there were attacks taking advantage of a serious software bug with cryptocurrencies like the recent Bitcoin inflation bug, one of the possible consequences is a rollback, as suggested by Jimmy Song ([Medium](#)). The software nature of Bitcoin makes the risk much bigger than we think. For example, in August 2010, block 74638 contained a transaction that created 184 billion bitcoins for 3 different addresses due to a value overflow bug, where 2 addresses received 92 billion bitcoins each. The incident caused a fork which rolled back the blockchain to the point before the hack occurred. Since transactions and trades would be ripped off from the time when the bug takes place when there is a rollback, ETF's unit creation and redemption during that period may also have to be reversed. Authorized Participants (APs) would likely co-operate with the rollback but in case the ETFs have grown to very large scale, some APs could face substantial losses rolling back since their balance sheets may not be ready to support so. We are not yet clear how the situation would be handled and whether it could cause insolvency to the APs. Furthermore, hard forks may cause unexpected tax events, which is not ideal for a publicly quoted security like ETF.

Another issue is custodian risk. As ETF would have inflow and outflow of bitcoin on a daily basis to facilitate the unit creation and redemption, a trust would employ hot wallet alongside a cold wallet storage system. The security level concern would be similar to what most crypto exchanges are facing, who commonly use hot wallets for inflow and outflow of assets. The more operation of hot wallets, the more risk of being hacked. In 2014, \$473 million worth of Bitcoin was stolen from an exchange Mt. Gox; 120,000 BTC which worth about \$765 million today was stolen from crypto trading platform Bitfinex in 2016; Mining marketplace NiceHash was hacked in 2017 and 4700 BTC (~\$80 million) was stolen. Other examples are Coincheck: \$534 million, BitGrail: \$195 million and Coinrail: \$37.2 Million.

The third issue is market manipulation. Many Bitcoin exchanges with high trading volume are unregulated, which means it could be difficult for regulators to request for their co-operation in case of criminal events such as price manipulation. With the presence of ETF, there are more opportunities for people to profit through manipulation. For example, insiders could profit from pushing up the price on unregulated exchanges while purchasing the ETF in advance. It is hard to monitor and prohibit these activities due to the lack of enforcement power over unregulated exchanges. Furthermore, even though SolidX argues that they rely on regulated OTC market for valuation, it would still be subject to the risk of manipulation because price transmission mechanism would mean market participants would arbitrage between (regulated) OTC brokers and (many unregulated) exchanges (that latter represents considerable volume) until OTC prices converge with exchange prices.

Regarding the insurance protection, SolidX plans to purchase crime insurance to protect shareholders against theft and loss of the Trust's Bitcoin. However, the

insurance market structure for Bitcoin can be argued as immature without long enough proven track record. For example, if the insurance market simply refuses to offer further insurance upon expiry after heavy losses, ETFs would be forced to liquidate and delist, hurting the investing public. It is not prudent for an ETF to rely on it.

Thank you for your consideration.

Regards,