



October 31, 2018

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File Number SR-CboeBZX-2018-040 (the “Proposal”)

Dear Mr. Fields:

Cboe Global Markets, Inc. (“Cboe”) appreciates the opportunity to submit this comment letter in response to the request for comments in the Order Instituting Proceedings to Determine Whether to Approve or Disapprove the Proposal¹ and express its belief that the Securities and Exchange Commission (the “Commission”) should approve the Proposal to list and trade SolidX Bitcoin Shares (the “Fund”) issued by the VanEck SolidX Bitcoin Trust (the “Trust”) and for which SolidX Management LLC is the sponsor (the “Sponsor”).

Cboe operates four registered national securities exchanges in the U.S. for the trading of equity securities, one of which, Cboe BZX Exchange, Inc., (the “Exchange”) is a listing venue that currently lists 276 exchange-traded products (“ETPs”) from 52 sponsors. Cboe is a leading exchange operator for the trading of ETPs, with its four equity exchanges accounting for 20.4% of the daily trading volume in ETPs.²

As noted above, Cboe is submitting this comment letter in support of the Proposal and to respond to the Commission’s request for comments.

1. What are commenters’ views of the Exchange’s assertions that bitcoin is arguably less susceptible to manipulation than other commodities that underlie ETPs; that the geographically diverse and continuous nature of bitcoin trading makes it

¹ See Securities Exchange Act Release No. 84231 (September 20, 2018), 83 FR 48665 (September 26, 2018) (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 Rule 14.11(e)(4), Commodity-Based Trust Shares) (the “Order”).

² Based on data from September, 2018.

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, 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?

- 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?**
- 4. What are commenters’ views, generally, on whether the proposed ETP would be susceptible to manipulation?**
- 5. What are commenters’ views on whether and to what extent bitcoin futures markets generally, and current volume on those markets specifically, affect the susceptibility of bitcoin to manipulation? What are commenters’ views on whether and to what extent other listed bitcoin derivatives, and the current volume on the markets for those derivatives, affect the susceptibility of bitcoin to manipulation?**

- 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?**
- 13. What are commenters' views on whether the Exchange has entered into a surveillance-sharing agreement with a regulated market of significant size related to bitcoin? What are commenters' views on the current regulation of bitcoin-related markets? What are commenters' views on whether markets for listed bitcoin derivatives—such as bitcoin futures markets—are markets of significant size? What are commenters' views on whether there is a reasonable likelihood that a person attempting to manipulate the proposed ETP would also have to trade on a regulated bitcoin-related market with which the Exchange has a surveillance sharing agreement? What are commenters' views on whether trading in the proposed ETP would be the predominant influence on prices in a regulated, bitcoin-related market with which the Exchange has a surveillance-sharing agreement?**

Cboe continues to believe that the policy concerns related to reference assets underlying series of Commodity-Based Trust Shares and their susceptibility to manipulation are mitigated as it relates to bitcoin and the Shares because the bitcoin ecosystem, the spot, OTC, and derivatives trading markets, and the proposed pricing of the Shares minimize the risk of manipulation of the price of bitcoin and of the Shares, especially as compared to other commodities underlying already approved and listed ETPs.

In the OTC markets, principal-to-principal trading, which allows each OTC venue to identify the parties on each side of a trade that is being executed, combined with the large size at which trades are effected, meaning that even large marketable buy or sell orders will not likely cause significant price movement at the OTC venue, should effectively eliminate the ability of market participants to manipulate the market with small trades as may be the case on any individual exchange. The OTC desks that comprise the MVBTCO with which the Trust intends to effect transactions are well established institutions that comply with AML and KYC regulatory requirements with respect to trading counterparties and include entities that are regulated by the SEC and FINRA as registered broker-dealers and affiliates of broker-dealers. As noted in the Order, it is the Sponsor's position that the OTC desks have a better measure of the market than any exchange-specific reference price, whether individually or indexed across multiple exchanges, a position further addressed below and that the Sponsor has

expanded upon in its own comment letter in response to the Order. The geographically diverse and continuous nature of bitcoin trading makes it difficult and prohibitively costly to manipulate the price of bitcoin and, in many instances, the bitcoin market is generally less susceptible to manipulation than the equity, fixed income, and commodity futures markets. There are a number of reasons this is the case, including that there is not inside information about revenue, earnings, corporate activities, or sources of supply; it is generally not possible to disseminate false or misleading information about bitcoin in order to manipulate; manipulation of the price on any single venue would require manipulation of the global bitcoin price in order to be effective; a substantial over-the-counter market provides liquidity and shock-absorbing capacity; bitcoin's 24/7/365 nature provides constant arbitrage opportunities across all trading venues; and it is unlikely that any one actor could obtain a dominant market share.

Further, bitcoin is arguably less susceptible to manipulation than other commodities that underlie already approved ETPs; there may be inside information relating to the supply of the physical commodity such as the discovery of new sources of supply or significant disruptions at mining facilities that supply the commodity that simply are inapplicable as it relates to bitcoin. Further, the Exchange believes that the fragmentation across bitcoin platforms, the relatively slow speed of transactions, and the capital necessary to maintain a significant presence on each trading platform make manipulation of bitcoin prices through continuous trading activity unlikely. Moreover, the linkage between the bitcoin markets and the presence of arbitrageurs in those markets means that the manipulation of the price of bitcoin on any single venue would require manipulation of the global bitcoin price in order to be effective. Arbitrageurs must have funds distributed across multiple trading platforms in order to take advantage of temporary price dislocations, thereby making it unlikely that there will be strong concentration of funds on any particular bitcoin exchange or OTC platform. As a result, the potential for manipulation on a trading platform would require overcoming the liquidity supply of such arbitrageurs who are effectively eliminating any cross-market pricing differences. For all of these reasons, the Exchange believes that bitcoin is not particularly susceptible to manipulation, especially as compared to other approved ETP reference assets.

- 3. The Exchange asserts that the dissemination of information on the Trust's website, along with quotations for and last-sale prices of transactions in the Shares and the IIV and NAV of the Trust, will help to reduce the ability of market participants to manipulate the bitcoin market or the price of the Shares and that the Trust's arbitrage mechanism will facilitate the correction of price discrepancies in bitcoin and the Shares. In addition, the Exchange asserts that**

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. The Exchange further states that the exploitation of arbitrage opportunities by Authorized Participants and their clients and customers will tend to cause the public trading price to track NAV per Share closely over time. What are commenters' views regarding these statements? For example, 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?

Cboe firmly believes that trading in the Shares will operate in a manner nearly identical to any other ETP that offers creation and redemption to Authorized Participants. While bitcoin as an underlying reference asset does raise certain unique issues, such unique issues do not include the fundamental economic incentives that the arbitrage mechanism provides to Authorized Participants and other arbitrageurs to keep the price of an ETP in line with its NAV. Given the liquidity and nature of quoting in the OTC bitcoin market along with the availability of information described above, Cboe believes that Authorized Participants and other market makers will be able to engage in arbitrage, make efficient and liquid markets, and generally keep the price of the Shares in line with NAV.

- 6. What are commenters' views on the Trust's proposal to value its bitcoin holdings based on an index—the MVBTCO—that is calculated through a proprietary, non-public methodology that uses the privately reported bid/ask spreads of an unidentified set of U.S.-based market-makers in the OTC marketplace, which, the Exchange says, has no formal structure and no open-outcry meeting place? Is the use of a non-public proprietary index to value holdings based on OTC activity an appropriate means to calculate the NAV of an ETP? What are commenters' views on whether determining NAV based on the index value at 4:00 p.m. E.T. might, or might not, create an opportunity for manipulation of the NAV or of the Shares?**
- 7. What are commenters' views on the statement in the Notice that, according to the Sponsor, the MVBTCO's methodology decreases the influence on the MVBTCO of any particular OTC platform that diverges from the rest of the data points used by the MVBTCO, which reduces the possibility of an attempt to manipulate the price of bitcoin as reflected by the MVBTCO?**
- 8. What are commenters' views on each of the set of alternative means by which the Trust proposes to value its holdings in the event that the Sponsor determines**

that the MVBTCO, or another alternate pricing mechanism, has failed or is unavailable?

9. The Exchange represents that, while the Trust intends to conduct the majority of its trading in the OTC market on the OTC platforms that comprise the MVBTCO, the Trust also will maintain an internal proprietary database, which it will not share with anyone, of potential OTC bitcoin trading counterparties, including hedge funds, family offices, private wealth managers, and high-net-worth individuals. The Exchange further states 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?
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?
12. What are commenters' views on the Exchange's representation that the Sponsor estimates that the U.S. dollar OTC bitcoin trading volume globally represents on average approximately 50% of the trading volume of bitcoin traded globally in U.S. dollars on U.S.-dollar-denominated bitcoin exchanges? Is the volume of U.S. dollar trading of bitcoin—which excludes bitcoin trading against other sovereign currencies or digital assets—a meaningful or appropriate measure of bitcoin market volume? Why or why not?
18. The Exchange states that the Trust will maintain crime, excess crime, and excess vault risk insurance coverage underwritten by various insurance carriers that will cover the entirety of the Trust's bitcoin holdings. The Exchange further states that, while the Trust is confident in its system for securing its bitcoin, insurance coverage of all of the Trust's bitcoin holdings eliminates exposure to the risk of loss to investors through fraud or theft, which in turn eliminates most of the custodial issues associated with a series of Commodity-Based Trust Shares based on bitcoin. 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?

As described above and throughout the Proposal, Cboe believes that the Proposal is consistent with the Securities Exchange Act of 1934 (the “Act”). For additional detail about the MVBTCO, its constituents, its methodology, the OTC market, the Trust’s OTC transactions, alternate pricing mechanisms for valuing the Trust’s holdings, and the Trust’s insurance coverage, please refer to the comment letter submitted by the Sponsor on October 31, 2018.

14. The Exchange represents that it has entered into a comprehensive surveillance-sharing agreement with the Gemini Exchange. What are commenters’ views on whether the Gemini Exchange is a market of significant size? What are commenters’ views on whether there is a reasonable likelihood that a person attempting to manipulate the proposed ETP would also have to trade on the Gemini Exchange? What are commenters’ views on whether trading in the proposed ETP would be the predominant influence on prices in the Gemini Exchange?

Cboe has in place a comprehensive surveillance-sharing agreement with Gemini Exchange and is working with other bitcoin exchanges to obtain a comprehensive surveillance-sharing agreement. Information obtained directly from bitcoin exchanges combined with the information available to the Exchange through the Intermarket Surveillance Group related to trading in bitcoin derivatives and trading in the Shares will allow the Exchange to both detect and deter manipulative trading activity in the Shares.

15. According to the Exchange, the Shares will be purchased primarily by institutional and other substantial investors (such as hedge funds, family offices, private wealth managers, and high-net-worth individuals), which will provide additional liquidity and transparency to the bitcoin market in a regulated vehicle such as the Trust. The Exchange asserts that, with an estimated initial per-share price equivalent to 25 bitcoins, the Shares will be cost-prohibitive for smaller retail investors while allowing larger and generally more sophisticated institutional investors to gain exposure to the price of bitcoin through a regulated product, eliminating the complications and reducing the risk associated with buying and holding bitcoin. 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 regarding whether broker-dealers are likely to offer fractional shares in the Trust to retail investors, permitting retail investment with a smaller financial commitment? What are commenters’ views of

the Exchange’s assertions that the Sponsor believes that 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, in light of the possibility that broker-dealers may offer fractional shares to their customers?

Cboe believes that the Shares would not be appropriate for all investors, however, Cboe also believes that comprehensive risk disclosure as provided in the applicable regulatory documentation backstopped by rigorous broker-dealer evaluation of the suitability of a particular product for a client provides a sufficient framework for investor protection. Making the initial per-share price equal to 25 bitcoin further protects against less sophisticated investors purchasing the Shares and, to the extent that broker-dealers decide to offer fractional shares to unsophisticated retail investors, they would go beyond ignoring their obligations to actively flouting the requirement that they evaluate the suitability of a particular product for a client.

Cboe notes that investors currently have access to ETPs that track the price of sugar, dry bulk shipping, corn, and even livestock, among other less traditional commodities that present similarly difficult questions about suitability and appropriateness for investors. Just as with these more obscure commodity-related ETPs, the Shares may serve a purpose in a reasonably constructed investment portfolio while simultaneously not being appropriate for all investors. The combination of risk disclosure obligations for the Trust, the requirement that broker-dealers perform comprehensive analysis about the suitability of a particular product for their customers, and the large share price for the Shares will provide sufficient investor information and protection while allowing appropriate investors to gain exposure to cryptocurrency-related assets through well-regulated and transparent vehicles.

16. The Exchange represents that that there will be at least 100 Shares outstanding at the time of commencement of trading on the Exchange and that this amount of Shares outstanding at the commencement of trading will be sufficient to provide adequate market liquidity. What are commenters’ views on the Exchange’s assertion that a minimum of 100 Shares outstanding at the time of commencement of trading will be sufficient to provide adequate market liquidity? What are commenters’ views on whether the 100-share minimum would affect the arbitrage mechanism?

17. What are commenters' views on the Exchange's assertion that, even though the Trust would not comply with the minimum number of shares outstanding required by Exchange rules, the policy concerns underlying that requirement would be otherwise mitigated in the case of the Trust, because the lower number of Shares is merely a function of the price of the Shares and will have no effect on the creation and redemption process or on arbitrage?

The Trust currently expects that there will be at least 100 Shares outstanding at the time of commencement of trading on the Exchange, which the Exchange believes to be sufficient to provide adequate market liquidity. Assuming a bitcoin price of \$6,500 and approximately 25 bitcoin per Share, the Shares would be approximately \$162,500 each. With a minimum of 100 Shares outstanding, the market value of all Shares outstanding would be approximately \$16,250,000. The Exchange rules related to requiring at least 50,000 shares and a minimum market value of \$1,000,000 are designed to ensure that there are sufficient shares and market value outstanding to facilitate the creation and redemption process and ensure that the arbitrage mechanism will keep the price of a series of Commodity-Based Trust Shares in line with its NAV and prevent manipulation in the shares. The Exchange, however, believes that such policy concerns are otherwise mitigated. The lower number of Shares is merely a function of price that will have no impact on the creation and redemption process and the arbitrage mechanism. Whether the Shares are priced equal to 25 bitcoin with a Basket of 5 Shares or the Shares are priced equal to .025 bitcoin with a Basket of 5,000 Shares, the cost to an AP to create or redeem will be the exact same and such a creation and redemption will have the same proportional impact on Shares and market value outstanding. Because the creation units and redemption units for most exchange-traded products are between 5,000 and 50,000 shares, it makes sense to apply a minimum number of shares outstanding to such products. Where a creation unit is 5 shares, the policy concerns that these requirements are designed to address are mitigated even where there are significantly fewer shares outstanding.

Cboe appreciates the opportunity to reply to the request for comments in the Order. As discussed above, Cboe believes that the Proposal is consistent with the Act and that the Shares offer a much needed regulated and exchange-listed investment vehicle that provides exposure to bitcoin. As such, Cboe encourages the Commission to approve the Proposal. Cboe welcomes the opportunity to provide the Commission with any additional information that it might find useful or to further discuss any of the issues raised herein.



Sincerely,

A handwritten signature in blue ink, appearing to read "Kyle Murray". The signature is fluid and cursive, with a large loop at the end.

Kyle Murray
Assistant General Counsel