SolidX Management LLC
200 Park Avenue
New York, NY 10166

March 15, 2017

Secretary Brent J. Fields
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. SR-NYSEArca-2016-101

Dear Mr. Fields:

SolidX Management LLC (the "Sponsor") appreciates the opportunity to respond to the Securities and Exchange Commission's (the "Commission") request for comments pursuant to Release No. 34-80099 regarding the proposed rule change, as modified by Amendment No. 1, by the NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") that would permit the listing and trading of shares issued by the SolidX Bitcoin Trust (the "Trust") on the Exchange pursuant to NYSE Arca Equities Rule 8.201.

The Commission's findings in the Order Disapproving a Proposed Rule Change, as Modified by Amendments No. 1 and 2, to BZX Rule 14.11(e)(4), Commodity-Based Trust Shares, to List and Trade Shares Issued by the Winklevoss Bitcoin Trust, Release No. 34-80206 (the "BZX Order") should not apply to the proposed rule change by the NYSE Arca, because the NYSE Arca proposed rule is designed to prevent fraudulent and manipulative acts and practices and will promote investor protection and the public interest and is therefore consistent with Section 6(b)(5) of the Exchange Act.

Section 6(b)(5) requires, among other things, that a national exchange's rules be designed to prevent fraudulent and manipulative acts and practices and to protect investors and the public interest, but such requirements in Section 6(b)(5) contemplate the exchange's rules as applied to "transactions in securities" that are or will be listed on the exchange.[1] With respect to the proposed rule change by the NYSE Arca that would permit the listing and trading of shares issued by the Trust, the requirements of Section 6(b)(5) concern the shares of the Trust and not bitcoin. When shares of the Trust begin to trade on the NYSE Arca, the rules of the Exchange, as such rules will be applied to shares of the Trust, will indeed prevent fraudulent and manipulative acts and practices and protect investors and the public interest.

1. The NYSE Arca Proposed Rule is Designed to Protect Investors and the Public Interest

The Trust will provide investors with access to bitcoin without the risks associated with sourcing

[1] 15 U.S.C. 78f(b)(5)

bitcoin directly.[2] Over the past several years, bitcoin exchanges have been hacked and dishonest individuals have perpetrated investor schemes.[3] During the period 2011, through the date of this letter, and based on the current price of bitcoin, these events have led to investor losses of approximately $2 billion.[4] It is reasonable to assume that the Commission will see similar investor losses unless and until investors are able to invest in bitcoin through a product such as the Trust that is bound by well-established securities rules and regulations. These losses and documented schemes (about which the Commission is well-aware given its involvement in bringing enforcement actions) are documented and quantifiable.

The Trust's insurance policy and the NYSE Arca proposed rule change will serve the public interest in a manner otherwise unavailable. Multiple commenters have noted the importance of the Trust's insurance policy.[5] Throughout the BZX Order, the Commission noted that surveillance sharing agreements provide an important deterrent to manipulation because they facilitate the availability of information needed to fully investigate a potential manipulation if it were to occur. ***However, the investor harm from potential manipulation is hypothetical in nature and unlikely, whereas the harm to investors from a lack of access to an insured vehicle is overt and likely to continue in the absence of approval of the NYSE Arca proposed rule change***. It would undoubtedly be to the detriment of investors if the Commission were to prioritize surveillance agreements over protecting investors from ongoing losses related to hacking, errors and other operational hazards associated with direct bitcoin ownership.

A decision not to permit the NYSE Arca proposed rule change would be in direct contravention of Section 6(b)(5)'s goal and purpose to protect investors and the public interest.

2. The NYSE Arca Proposed Rule is Designed to Prevent Fraudulent and Manipulative Acts and Practices

Although Section 6(b)(5) applies to transactions in securities listed on a national exchange, the Sponsor takes this opportunity to discuss further the impact of the NYSE Arca's proposed rule change both on shares of the Trust and on the underlying bitcoin market.

As we explain in greater detail below, the bitcoin market as currently structured is resilient to manipulation. Beyond the bitcoin market's current resiliency, the NYSE Arca proposed rule

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[2] *See e.g.*, https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-1.pdf

[3] *See e.g.*, Allinvain Theft, BIPS, Bitcash.cz, Bitcoin Savings & Trust (Trendon Shavers), Bitcoin Syndicate, Bitcoinica, Bitcurex, Bitfinex, BitFloor, Bitomat.pl, Bitstamp, BTC-E, Canadian, Bitcoins, CryptoRush, Cryptsy, Flexcoin, Gatecoin, GBL Exchange Scam, Inputs.io, Kronos, MintPal, Mt. Gox Collapse, MyCoin, MyBitcoin, Picostocks, Poloniex and Shapeshift.

[4] *Id*.

[5] https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-2.pdf; https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-3.pdf; https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-4.pdf; https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-5.pdf; https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-6.pdf; https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-1579480-131874.pdf; https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-1594391-132352.pdf

change is designed to strengthen the bitcoin market's resistance to manipulation even further. As Professor Lewis noted in his submission to the public comments file,[6] the Trust may actually reduce the potential for fraud or manipulation of bitcoin because:

1. The Trust has entered into RVP/DVP arrangements with multiple exchanges, which are intended to create a more liquid supply of bitcoin than would be available if creation and redemptions were only permitted in a single location;
2. The Trust and transactions in its shares would be transparent, with the Trust publishing information about its holdings and operations;
3. The Trust would utilize a consistent, transparent, non-discretionary, rules-based, and fully disclosed protocol for redemptions; and
4. A recognized independent valuation agent would use a third-party index to value the Trust's net asset value and intraday indicative values.

Professor Lewis further noted that the Commission has concluded in past commodity-based ETP approvals that the listing and trading of commodity-based ETP shares would facilitate transparency with respect to the ETP shares and diminish the risk of manipulation or unfair informational advantage. It would then be expected that the Trust's disclosures, creation and redemption activity with respect to its shares, the dissemination of quotations for and last-sale prices of transactions in the shares and the net asset value and intraday indicative values of the Trust, would serve to reduce the ability of market participants to manipulate the bitcoin market or the price of the Trust's shares.

With regard specifically to shares of the Trust, the NYSE Arca proposed rule change states that the shares will be subject to NYSE Arca Equities Rule 8.201, which provides strong protection against manipulation of shares traded on the Exchange.

Consequently, the NYSE Arca proposed rule change is designed to prevent fraudulent and manipulative acts and practices both in shares of the Trust and in the underlying bitcoin market.

3. Surveillance is Not an Appropriate Prerequisite for the Approval of the NYSE Arca Proposed Rule Change

Section 6(b)(5) requires an exchange's rules to be designed to prevent fraudulent and manipulative acts and practices, but Section 6(b)(5) does not provide any inherent requirement for market surveillance.[7] Indeed, the Commission has previously approved a rule change where the underlying market was not surveilled.[8] In its November 28, 2005 order – Release No. 34-52843 – the Commission approved on an accelerated basis a rule change to list and trade shares of the Euro Currency Trust, even though there did not exist exchange surveillance of the

[6] https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-1579480-131874.pdf

[7] There is no mention in Release No. 34-79171 (regarding the proposed rule change by the NYSE Arca that would permit the listing and trading of shares of the SolidX Bitcoin Trust) regarding surveillance of bitcoin markets or surveillance sharing agreements. There was therefore no opportunity within the statutorily prescribed comment period to address any concerns the Commission may have regarding surveillance as such concerns may apply to the NYSE Arca proposed rule change.

[8] https://www.sec.gov/rules/sro/nyse/34-52843.pdf.

underlying markets. The approval was based in part on the cross-platform trading that served to prevent manipulation. The bitcoin market has a similar structure to the currency market and benefits similarly from cross-platform trading activity. As Professor Lewis noted, although each bitcoin exchange has its own market price, it is expected that most bitcoin exchange market prices should be relatively consistent with the bitcoin exchange average. Because market participants can choose the bitcoin exchanges on which to buy and sell bitcoin, price differentials across bitcoin exchanges create incentives to eliminate cross-exchange arbitrage opportunities.[9]

4. Both the Price of Bitcoin and the Price of the Shares are Resilient to Manipulation and the NYSE Arca Proposed Rule Change Enhances the Resistance

As noted in Professor Lewis's submission, the ability to manipulate the price of bitcoin or to manipulate the Trust's shares is *de minimis*. Numerous factors mitigate the risk of manipulation. These factors include:

- The net asset value and intraday indicative values of the Trust's shares are based on the XBX index, which is determined by an independent third party valuation agent;
- Reg NMS does not apply to bitcoin;
- Concerted efforts to manipulate bitcoin prices enough to affect the level of the XBX would require a significant capital investment on each exchange in the index;
- Compared to equity markets, trading on bitcoin exchanges is relatively slow;
- Given the degree of fragmentation across bitcoin exchanges, the relatively slow transaction speeds (compared to equity markets) and the capital necessary to maintain a significant presence on each one, the likelihood of spoofing is low;
- Manipulation of the open and close prices is not a significant risk because the bitcoin market is open continuously and the XBX index is calculated on a continuous basis;
- The additional market transparency created by the listing of shares of the Trust is likely to enhance efficiency in the market for bitcoin; and
- The listing and delisting criteria for the Trust's shares are expected to help to maintain a minimum level of liquidity and therefore minimize the potential for manipulation of the share prices.[10]

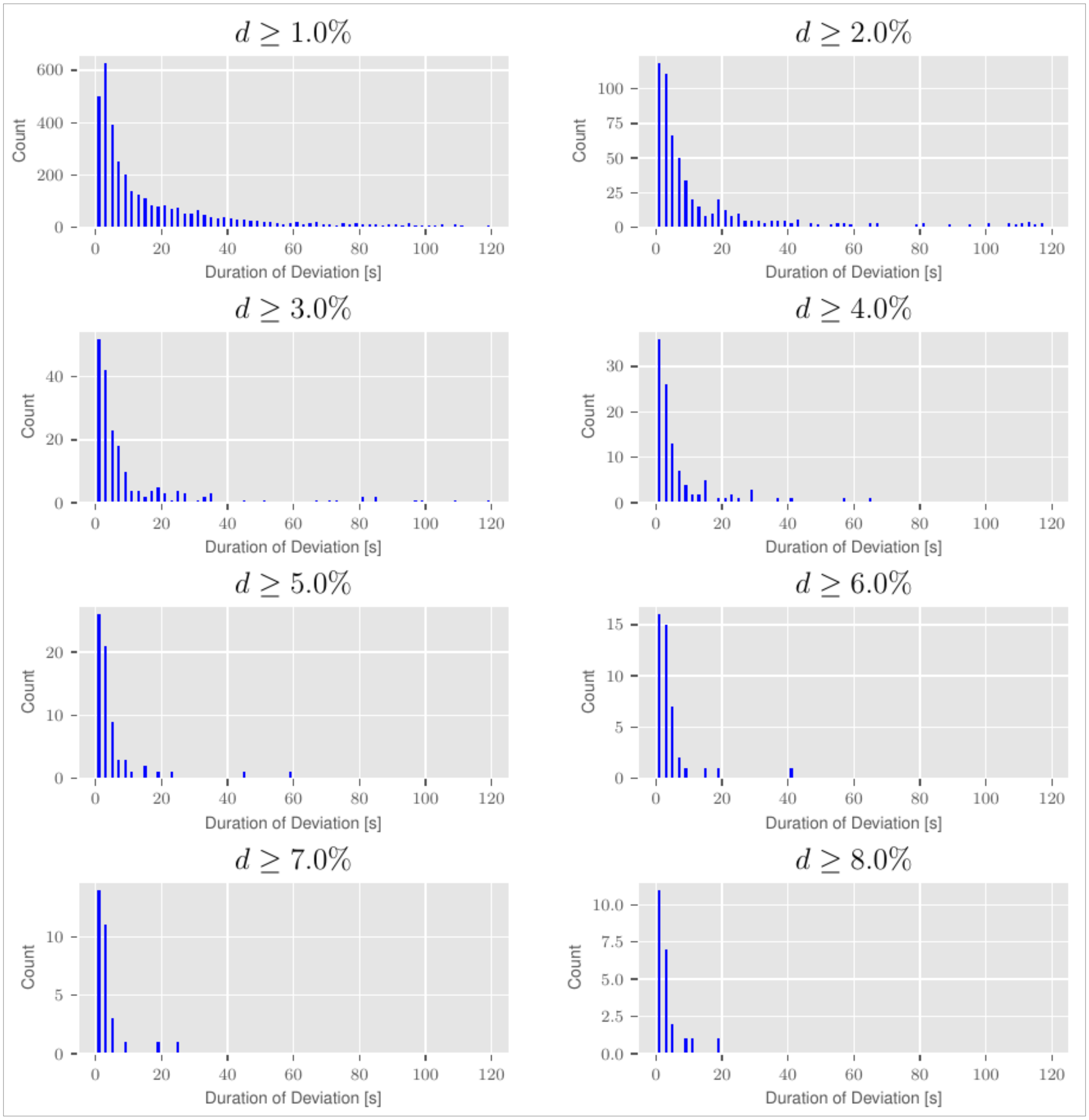
Price efficiency can be achieved when there is a liquid market that accommodates price discovery. For physical commodities that are not traded on exchanges, the presence of a liquid derivatives market is a necessary condition. For digital assets like bitcoin, price discovery occurs on the over-the-counter market and exchanges instead. Derivatives markets for bitcoin are not necessary because the over-the-counter market and exchanges are close substitutes. The ability to manipulate prices of the Trust's shares is expected to be immaterial due to the market structure of bitcoin trading.[11]

[9] https://www.sec.gov/comments/sr-nysearca-2016-101/nysearca2016101-1579480-131874.pdf

[10] *Id.*

[11] *Id.*

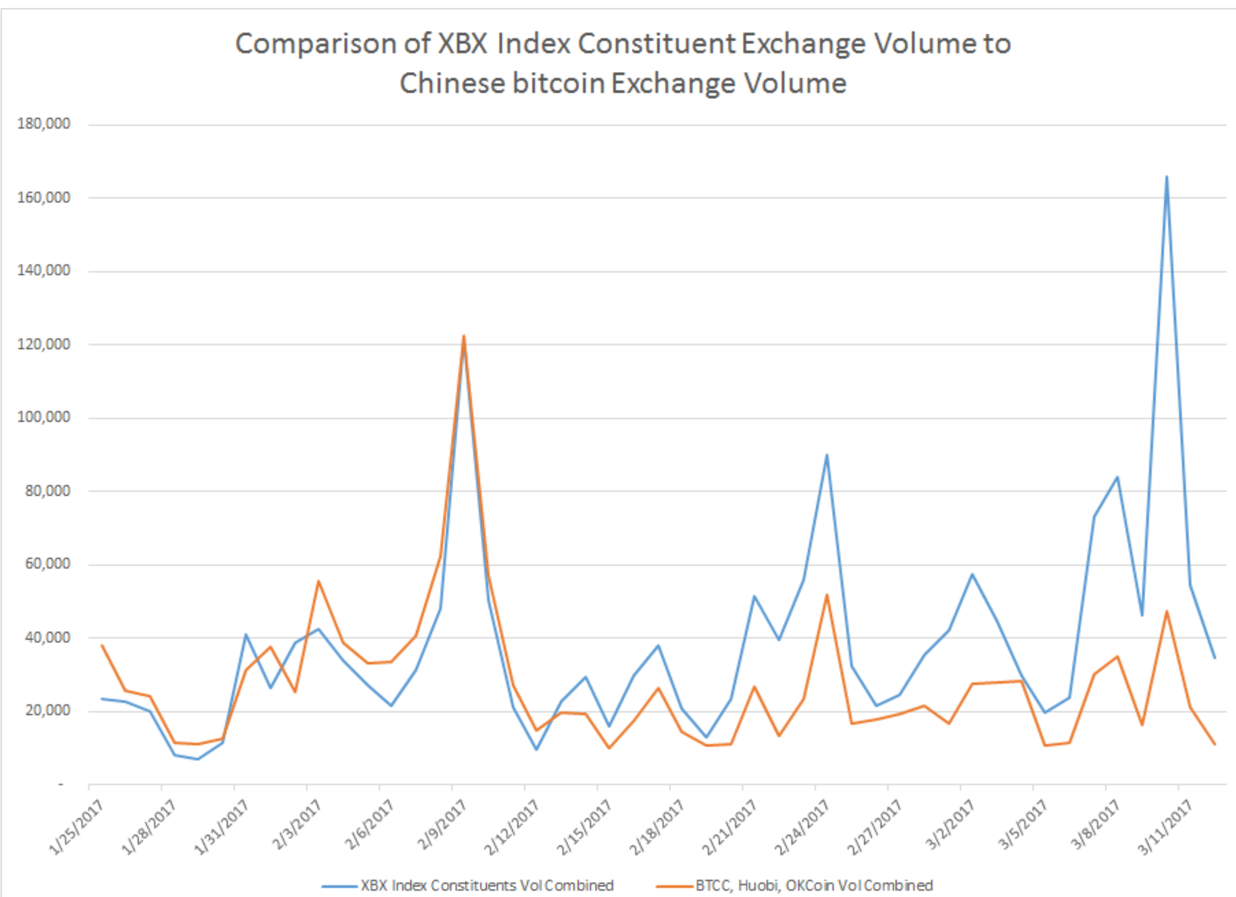
In addition, arbitrage across bitcoin markets helps to keep bitcoin prices aligned and reduces the likelihood of manipulation. The histograms below examine data from four of the largest U.S. dollar bitcoin exchanges – Bitfinex, Bitstamp, GDAX and itBit – during the period November 30, 2016, through March 13, 2017, a continuous period of 8,977,848 seconds. The histograms compare volume weighted average price across the exchanges with deviations in price at one or more exchange. The steep drops in duration of deviations demonstrate that pricing discrepancies are generally arbitraged away within a few seconds and evidence the strong effect of arbitrage among the exchanges.

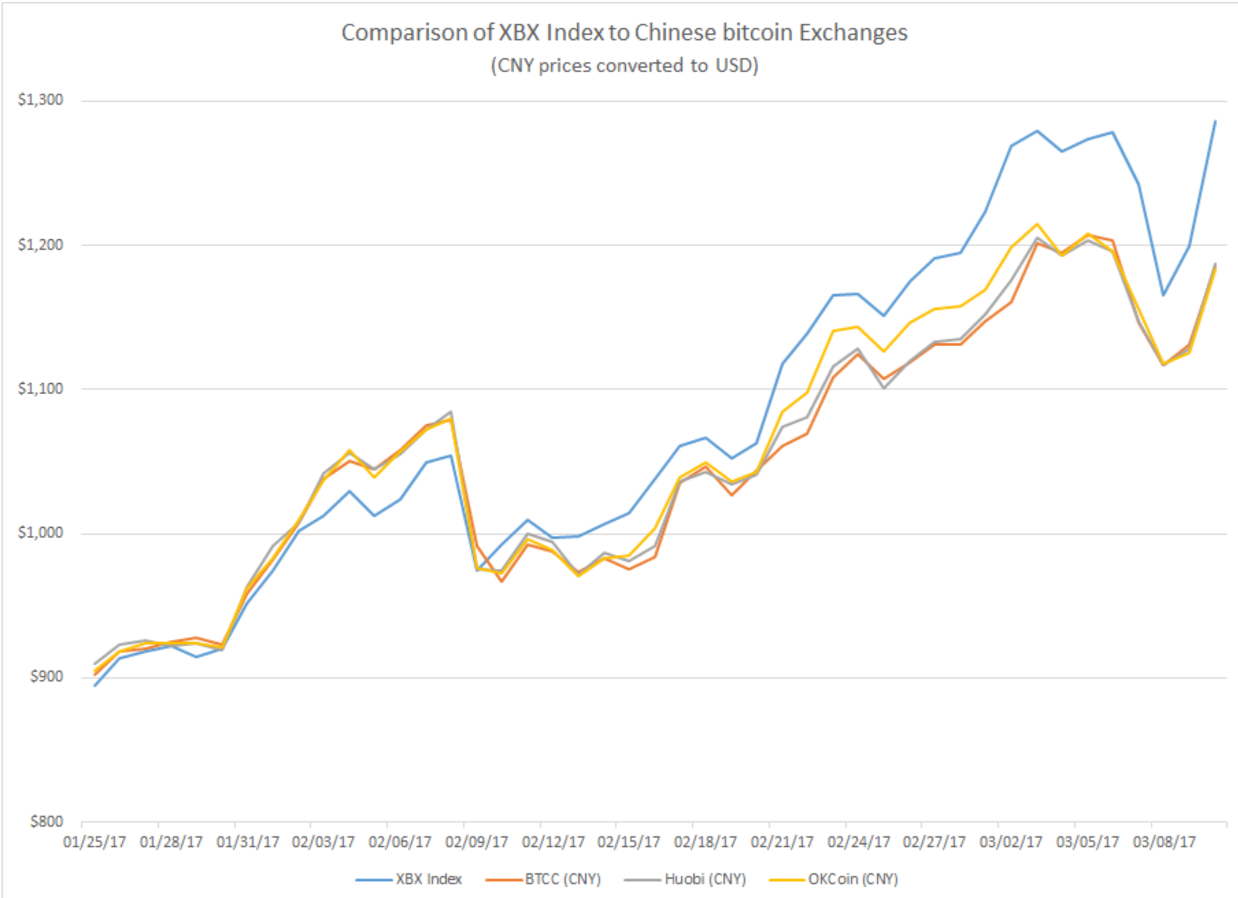


Beyond the above, the observations in the BZX Order relating to the price and volume of bitcoin trading on Chinese exchanges are outdated and now incorrect. Through January 2017, the trading volume on the three major Chinese exchanges, BTCC, Huobi and OKCoin Exchange China, was significant. In January 2017, the People's Bank of China mandated that these exchanges reduce leveraged trading and impose various trading fees, which caused the volumes on the exchanges to decline to levels in-line with the trading volumes on U.S. dollar-denominated exchanges. These exchanges follow various anti-money laundering and know-your-customer procedures as such procedures are applied within the exchanges' respective jurisdictions.

In addition, trading on the Chinese exchanges is limited to Chinese yuan. In light of the capital controls in China, the Sponsor views the Chinese and U.S. dollar market for bitcoin as two separate and distinct markets.

The two charts below provide support for and highlight the Sponsor's view regarding the disconnection between the Chinese and U.S. dollar bitcoin markets. The first chart demonstrates that the volumes on the Chinese markets are now in-line with the volumes on U.S. dollar bitcoin exchanges, and the second chart demonstrates that the bitcoin prices on the Chinese exchanges do not influence the prices on U.S. dollar bitcoin exchanges.





Location-based differences in pricing of a commodity are a standard feature of most commodities markets, including the markets for gold, silver, platinum and palladium, all four of which are underlying assets for ETPs listed in the U.S.

5. The Public Comment Files are Distinct

The public comments referenced by the Commission in the BZX Order are littered with hyperbolic personal attacks directed explicitly at the Winklevosses. Other comments disparage the Gemini exchange, including its trading volumes and pricing mechanisms. None of the comments, however, focus on investor protection and the public interest, and none, nor do they relate to the SolidX Bitcoin Trust.

These comments stand in stark difference to the public comments filed in connection with the NYSE Arca's proposed rule changes concerning the SolidX Bitcoin Trust. With the exception of one commenter, all the comments concerning the SolidX Bitcoin Trust are positive, and highlight that shares of the Trust will promote investor protection and the public interest and prevent fraudulent and manipulative acts and practices. The comments concerning the SolidX Bitcoin Trust bear directly on the Commission's decision to approve or disapprove the NYSE Arca's proposed rule change to list and trade shares issued by the SolidX Bitcoin Trust.

The Commission's findings in the BZX Order should not apply to the proposed rule change by the NYSE Arca because the NYSE Arca proposed rule change is consistent with Section 6(b)(5) of the Exchange Act.

Very truly yours,

/s/ Daniel H. Gallancy

Daniel H. Gallancy, CFA