



CASTLE ISLAND
VENTURES

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

Re: File No. SR-NYSEArca-2019-01: Proposal to List and Trade Shares of the Bitwise Bitcoin ETF Trust Under NYSE Arca Rule 8.201-E

Dear Mr. Fields,

Thank you for the opportunity to comment on File No. SR-NYSEArca-2019-01. I support the Proposal and appreciate the opportunity to provide my views.

My name is Matthew Walsh and I am a founding partner at Castle Island Ventures. Castle Island Ventures is a venture capital firm focused exclusively on companies building in the public blockchain ecosystem.

We believe that permissionless blockchains represent a breakthrough technology that will fundamentally alter market structures and spawn entirely new industries. We expect this innovation to spur significant economic growth and bring new and previously marginalized individuals into the financial ecosystem. Castle Island Ventures is focused on supporting entrepreneurs that are on a mission to build the infrastructure services that will push these networks to their potential.

Prior to founding Castle Island Ventures, I served as a Vice President at Fidelity Investments, leading a number of the firm's blockchain and cryptoasset initiatives, including the creation and operationalization of a private fund focused exclusively on the cryptoasset sector.

It is with this perspective that I write this letter, hoping that my hands-on experience may be of use as you consider the Bitwise and NYSE Arca proposal. In particular, I aim to show how the cryptoasset market has matured such that an ETF is now feasible, why the Bitwise filing's approach is compelling, and why a Bitcoin ETF would be good for the United States.

The Cryptoasset Market Has Matured Dramatically in Recent Years

I have been following the development of bitcoin ETF proposals since the original filing of the Winklevoss Bitcoin Trust in 2013. At that time, the cryptoasset market was still in its infancy: There was little regulatory guidance around the space, the custody and trading ecosystems were underdeveloped, and few institutional participants had actively engaged in the sector.

Over the past few years, however—and particularly over the past 12-18 months—the cryptoasset ecosystem has gone through a rapid maturation process. The cryptoasset markets of today are increasingly well-regulated, well-structured, and well organized.

This maturation has been documented in the research Bitwise submitted in support of its application, as well as in various comment letters on the related NYSE Arca filing, but a few key points bear repeating:

1. **Regulation:** The regulatory environment governing the cryptoasset ecosystem has advanced rapidly in the past few years and is now sufficiently developed to support the launch of a bitcoin ETF. Among the key regulatory developments are:
 - a. **Clear Guidelines on Taxation:** In 2014, the Internal Revenue Service provided strong, clear and plain English guidelines on the taxation of cryptoassets through “Notice 2014-21,” removing significant uncertainty around how cryptoasset investments are taxed.
 - b. **Clear Guidelines On Bitcoin’s Security/Non-Security Status:** Through public statements by Director William Hinman (“Digital Asset Transactions: When Howey Met Gary (Plastic)”), subsequent commentary by Chairman Jay Clayton, and the Commission’s “Framework for “Investment Contract” Analysis of Digital Assets”, the Securities and Exchange Commission made it clear in 2018 and 2019 that cryptoassets that are sufficiently decentralized are not securities from the perspective of the Howey Test. This has removed a significant uncertainty that previously hovered around the cryptoasset trading environment, which has paved the way for various positive and pro-regulatory developments.
 - c. **The Launch of Regulated Derivatives:** The December 2017 launch of regulated bitcoin futures contracts on the CME significantly contributed to the maturation of the bitcoin market, and has important implications for the consideration of a bitcoin ETF. That market is now large and robust, regularly trading over \$100 million in daily notional trading volume, a material proportion of the overall bitcoin market.
 - d. **The Emergence of Cryptoasset Exchange Regulation, Capitalization Requirements and Surveillance Reporting Standards:** The growing importance of the New York State Department of Financial Services’ “BitLicense” regulation has driven critical advances in the bitcoin exchange ecosystem. There are now six major crypto exchanges operating under the BitLicense program, accounting for a significant portion of global spot bitcoin

trading volume.

The BitLicense regulation provides clear guidance to cryptoasset firms around capitalization, transparency, leadership and other factors. Additionally, in 2018, the NYDFS added guidelines that were specific to the cryptoasset exchange ecosystem, requiring careful surveillance of market manipulation and the reporting of any discovered manipulative behavior. Since this time, BitLicense exchanges have implemented sophisticated market surveillance tools from reputable firms like NICE Actimize, Irisium and NASDAQ, helping foster a safer and more established crypto trading market.

2. **Custody:** The bitcoin custody marketplace has significantly matured in recent years, as has the market for insurance on crypto custody. There are today a number of well-established bitcoin custodians, including large and reputable firms like Coinbase Custody and Fidelity Digital Assets. Many of these custodians have New York State Trust Charters, or are regulated by other state Trust Charters. Moreover, bitcoin custodians now regularly carry significant insurance from reputable insurance providers like Lloyd's of London, providing additional comfort that customer assets are secure.
3. **Trading:** The bitcoin trading ecosystem has significantly matured in recent years as well, with a number of factors coming together to dramatically improve the nature of bitcoin trading. These include the entry of large, established market makers like Jane Street, Susquehanna International Group, Jump Trading, and DRW (dba "Cumberland"); the launch and subsequent growth of a large, regulated bitcoin derivatives market; the development of a short lending market in bitcoin; and the emergence of algorithmically-driven trading tools that have brought in spreads, improved arbitrage, and made the bitcoin market increasingly efficient.

The bitcoin market is in a better position to support a bitcoin ETF than at any time in the past. The market has entered an institutional phase of its existence, with institutional service providers facilitating an institutional-quality market that processes hundreds of millions (and sometimes billions) of bitcoin transactions each day.

The Bitwise Application Has Unique Advantages

Beyond the general market conditions, the specific proposal from Bitwise has a number of unique advantages that are worth consideration. These include:

- a) **In-Kind Creation/Redemption:** The exclusive use of in-kind creations and redemptions, as well as Bitwise's decision to accrue all fees in-kind, provides significant protections to investors if there were an attempt at manipulation of the Trust's NAV. The reasons for this have been well articulated in the Bitwise proposal and in the June 11, 2019, Comment Letter from Jim Wiandt.¹

¹ Letter by Jim Wiandt: <https://www.sec.gov/comments/sr-nysearca-2019-01/srnysearca201901-5661643-185791.pdf>

- b) Third-Party, Regulated & Insured Custody:** Bitwise's decision to use a regulated, insured, third-party custodian provides comfort to investors that the bitcoin held by the Trust will be appropriately safe-guarded from loss.

- c) Bitwise's Experience Running Private Cryptoasset Funds:** Bitwise is an established cryptoasset manager, having managed millions of dollars in client assets since launching the world's first cryptoasset index fund in 2017. As a fund manager in this industry, I know that real-world experience dealing with the unique features of the cryptoasset market (hard forks, trading, custody, audit, etc.) is valuable, and Bitwise has shown the ability to securely buy, sell and store cryptoassets for customers over a significant period of time.

A Bitcoin ETF Would Support U.S. Economic Growth

In closing, and perhaps most importantly, I would like to make a generalized argument in favor of the approval of a bitcoin ETF.

The blockchain / cryptoasset markets are going through a rapid and important transformation from a grassroots market operating on the fringes of the economic ecosystem, into a robust institutional and increasingly mainstream driver of economic growth, jobs and wealth-creation. You can see this in the large number of established firms that have entered the industry in recent years, from my former employer Fidelity Investments, to IBM, Microsoft, the New York Stock Exchange, Facebook, Square, JP Morgan and so many others.

As the industry makes this transition, it is imperative that the U.S. regulatory structure remains on a balanced but forward-facing position. It is critically important that we enforce regulations, protect investors and clean up the unfortunate excesses of crypto past, but it is also important that we embrace positive actors and participate in the potential of public blockchain's future. Just as Americans led the way in pioneering the once uncertain opportunities of the internet and of mobile applications, it's important that we lead in this new industry.

As has been demonstrated throughout the review process for the Bitwise proposal, the markets today are ready to support a bitcoin ETF: custody is ready, trading is ready, audit is ready, and investors are ready. Approving an ETF will be an important step in showing the world that the U.S. is open to business and to innovation, and that, with the right safeguards and research in place, our regulators are prepared to take appropriate steps to support that growth.

Thank you for the opportunity to comment. I deeply appreciate the care, attention, hard work and diligent approach the SEC is taking towards this matter.

Sincerely,

A handwritten signature in blue ink, consisting of the letters 'MPW' in a cursive, stylized font.

Matthew P. Walsh
Founding Partner
Castle Island Ventures