



April 08, 2022

Ms. Vanessa Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, D.C. 20549-0609

*RE:* Notice of Filing of Proposed Rule Change to List and Trade Shares of Grayscale Bitcoin Trust (GBTC) under NYSE ARCA Rule 8.201-E

**File No.:** SR-NYSEArca-2021-90

**Release No.:** 34-93504

Dear Ms. Countryman,

Horizon Kinetics Asset Management LLC (“HKAM”) is a U.S. registered investment adviser (SEC No. 801-47515) that manages mutual funds, exchange traded funds, closed-end funds, private funds and separately managed accounts. As of February 28, 2022, we had discretionary management over approximately \$6.5 billion in assets, of which approximately \$493 million was invested in the Grayscale Bitcoin Trust (“GBTC”), representing approximately 2.00% of the total outstanding shares.

As long-term value investors, we are writing in support of the proposal by NYSE Arca, Inc. (“Arca”) pursuant to Rule 19b-4 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), to list shares of GBTC under NYSE Arca Rule 8.201-E as an exchange-traded product (“ETP”). We believe that allowing GBTC to convert to a spot-based ETP would be greatly beneficial to investors for the reasons further outlined below.

*Considerably More Efficient*

A spot-based Bitcoin ETP would be preferable to investors vis-à-vis a futures-based ETP, such as the existing ProShares Bitcoin ETF (BITO), particularly for long-term investors. The reason for this is that the futures-based ETP, obviously, transacts in the futures market rather than the spot market and with that comes the problem of futures roll. Since the Bitcoin futures market is generally in a state of contango, which means that the near-term future (e.g. the one expiring in April) is priced lower than the next-month future (e.g., the one expiring in May), BITO is forced to buy the higher-priced future and sell the lower-priced future each and every day in order to keep a steady average time to expiration. This mechanism slowly erodes the return of the ETP.

While the contango fluctuates on a daily basis, it has generally been between 0.0% and 1.0%<sup>1</sup>. This may seem low and, therefore, manageable, but it should be noted that this is a monthly figure,

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<sup>1</sup> Source: Chicago Mercantile Exchange (CME).



which means that BITO, at a 1.0% average contango, would experience a roll-friction of approximately 11.4% per annum (that is,  $1 - 0.99$  powered to 12). Taken a step further, an investor with a five-year investment horizon would experience a return that is 45.3% *lower* than the actual price development in the underlying (spot-bitcoin), simply as a result of a 1.0% monthly roll friction of the futures.<sup>2</sup>

In a real-time actual assessment of this friction, we note that BITO reached a high of \$43.95 on October 20, 2021, which was its first day of trading. Spot-Bitcoin reached a day-high of \$66,930 on that day.<sup>3</sup> As of this writing<sup>4</sup>, BITO trades at \$24.38 while Bitcoin trades at \$38,810. Consequently, the price of BITO has declined 44.53% from the day-high of October 20, 2021, while Bitcoin itself has ‘only’ declined by 42.01%. Therefore, in the 146 days<sup>5</sup> since BITO began trading, it has underperformed Bitcoin by more than 2.5%. Annualized, this represents 6.40% of relative underperformance. Extrapolating this performance drag to five years indicate that a long-term investor in BITO would underperform the price development in spot-Bitcoin by 36.39%. This underperformance does not even include the fees and expenses ProShares charges for management and operation of the product.

Therefore, a futures-based Bitcoin ETP is simply not suitable for long-term investors since the performance deviates greatly from the underlying asset, which is perhaps not obvious to many investors in such a product. A spot-based ETP would eliminate such a tracking error. Assuming a 0.50% annual management fee, a spot-based Bitcoin ETP would underperform the underlying by just 2.48% over five years, which is orders of magnitude better than the futures-based ETP. Further, investors are generally familiar with management fees and expenses, which are widely disclosed, and are thus better equipped to understand the departure between fund performance and that of the underlying investment.

#### Lower and More Fair Management Fee

The GBTC management fee, which is currently 2.0% of NAV would likely be reduced considerably should it be allowed to convert to a spot-based ETP. The Bitcoin ETPs trading in Canada have management fees of 0.40%-1.00% while BITO has a 0.95% management fee.

Another important point is that GBTC currently charges management fees on its net asset value (“NAV”), as opposed to on its actual market value. That means that investors experience a substantial fluctuation in the management fees they are charged based on their invested capital. For example, as of March 14, 2022, GBTC traded at a discount of 29.43% to its NAV. That means that an investor who invests \$1,000 in GBTC actually gets exposure to \$1,470 of Bitcoin and is, therefore, charged 2.00% on this amount, or \$29.40 per year. **This represents an actual management fee of 2.94%.** Of course, GBTC did not always trade at a discount. At times, it traded at a 100% premium, or more. As recently as December 21, 2020, GBTC traded at a 41.5% premium to its NAV. At that point, an investor who invested \$1,000 actually only got exposure to \$709 of Bitcoin, and was charged 2.00% on this amount, or \$14.19 per year, which equates to a 1.42% management fee. Thus, depending on when one invested over the past 15 months, the actual management fee based on the underlying exposure fluctuated

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<sup>2</sup> That number represents  $1 - 0.886$  (the annual roll yield friction) powered to five (years)

<sup>3</sup> Source: Yahoo Finance

<sup>4</sup> March 15, 2022, at 10:08am

<sup>5</sup> Since Bitcoin trades 24 hours per day, 365 days per year, the qualification of ‘trading days’ is redundant.



HORIZON KINETICS  
*Asset Management*

between 1.42% and 2.94%. This is perhaps also not clear to many investors in GBTC. It's worth noting that should GBTC trade at an even greater discount in the future, the management fee an investor would pay could be even greater than what they pay today. In that regard, we question whether an investor could properly and diligently evaluate their investments when the fee they pay is uncertain. A spot-ETP, which trades in line with the value of the underlying asset, would eliminate this problem.

*Investor Liquidity*

GBTC is a unique product whereby Accredited Investors are allowed to subscribe for shares through a private placement, and, after a 6-month "lock-up" period such shares are converted to freely tradeable shares that trade on the OTC markets. Similar to a closed-end fund, investors may only redeem their shares by finding a willing buyer. This has led to GBTC trading at a premium or discount to its NAV; currently, it trades at a substantial discount. With the proliferation of products that provide exposure to Bitcoin outside the U.S., along with an increase in the number of public companies that have direct material exposure to Bitcoin, we believe it likely that GBTC will continue trading at a substantial discount into the future. While investors who invest in closed-end funds are familiar with the intricacies of this structure, we wonder whether, at the time of investment, retail investors that purchased GBTC were truly aware that they would only be able to redeem their shares at a level substantially below their actual pro rata ownership of the fund's NAV. If the Commission does not take action to allow GBTC to convert to an ETP, this will continue to be the reality for its investors.

The aforementioned points are but a few of the issues we wished to highlight to the Commission, but we also agree with many of the items already stated in other submissions on this topic. We appreciate the Commission's attention to this important matter and for allowing us to express our views.

Very truly yours,



Murray Stahl  
Chief Investment Officer