



December 22, 2023
Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to List and Trade Shares of the Hashdex Bitcoin Futures ETF (Release No. 34-99031; File No. SR-NYSEARCA-2023-58)

Dear Ms. Countryman:

DV Chain, LLC¹ (“DV Chain” or the “Company”) respectfully submits this letter in support of the application by NYSE Arca Inc. pursuant to Rule 19b-4 under the Securities Exchange Act of 1934 (as amended the “Exchange Act”) to list and trade shares of Hashdex Bitcoin Futures ETF (“DEFI”) under NYSE Arca Rule 8.500-E as an exchange-traded product (“ETP”). DV Chain appreciates the opportunity to share its perspective for a listed spot-based Bitcoin ETP in the marketplace and to encourage the Securities and Exchange Commission (the “Commission”) to approve NYSE Arca’s application.

Since its establishment in 2016 by the founders of DV Trading, LLC (“DV Trading”, and together with DV Chain and their respective affiliates, the “DV Companies”), DV Chain has been providing liquidity, market data, and technology solutions to the global cryptocurrency space. The DV Companies’ expertise in traditional financial markets has enabled DV Chain to offer tight spreads and a robust tech stack to service the liquidity needs of numerous trading venues, professional trading firms, and fintech companies in digital assets.

Overview of the proposal

The digital assets market, with a capitalization exceeding \$1 trillion, has evolved significantly. As an active participant, DV Chain witnesses the increasing adoption of cryptocurrencies and their pivotal role in the financial landscape. While direct ownership suits some Bitcoin investors, others seek the convenience of acquiring indirect exposure through a spot Bitcoin Exchange Traded Product (ETP). Despite approvals in other jurisdictions, no such ETP has been sanctioned in the US, limiting options for domestic investors.

The DV Companies operate globally as professional traders in numerous ETPs, trading as principal and providing liquidity on various exchanges and trading venues. Competitive dynamics among market-making firms drive narrow spreads, benefiting investors. Drawing from the experience of other countries, where spot cryptocurrency ETP spreads closely mirror those of non-crypto ETPs, it is evident that US investors would benefit from approved listings as an efficient equivalent to direct Bitcoin ownership.

¹ DV Chain is an OTC liquidity provider to institutional counterparties in spot cryptocurrencies.

From our perspective, DEFI strategically utilizes the CME market to source spot exposure through Exchange for Physical (“EFP”) transactions, aiming to diminish the direct arbitrage between spot markets and the Fund's market price. The proposal's commitment to transparency is actively demonstrated through the reporting of EFPs to CME, subjecting prices to ongoing surveillance and review. By incorporating enhanced regulatory standards, such as the Dodd-Frank modernization of EFP transactions, the DEFI proposal exhibits a forward-looking approach to investor protection.

In summary, our understanding indicates that the filing presents a distinctive approach to Bitcoin price exposure and serves as a thoughtful and comprehensive response to the Commission's concerns about fraud and manipulation. As a market participant deeply committed to promoting market integrity and investor protection, DV Chain respectfully urges the Commission to consider the merits of DEFI's application favorably.

Exchange for Physical (“EFP”) transactions

2. Based on data and analysis provided and the academic research cited by the Exchange, what are commenters' views on whether the CME, on which CME bitcoin futures trade and through which the Fund intends to engage in EFP transactions to purchase or sell spot bitcoin, represents a regulated market of significant size related to spot bitcoin? What are commenters' views on whether there is a reasonable likelihood that a person attempting to manipulate the Shares would also have to trade on the CME to manipulate the Shares? Do commenters agree with the Exchange that trading in the Shares would not be the predominant influence on prices in the CME bitcoin futures market?

RESPONSE: DV Chain considers CME, a registrant with the Commodity Futures Trading Commission (the “CFTC”), a regulated market of significant size related to spot bitcoin. Although CME primarily operates as a futures venue, its open interest surpasses that of most other bitcoin markets, whether spot or futures. Particularly in bitcoin, futures and derivatives markets typically exhibit greater liquidity compared to spot markets. Given the active participation of many institutional/professional trading firms in futures and derivatives markets, where CME holds the highest open interest, it can be inferred that CME's bitcoin futures constitute a considerable portion of the total bitcoin market.

Regarding DEFI's strategy for acquiring spot bitcoin, there is a possibility that efforts to affect the price of DEFI Shares, regardless of the broader spot bitcoin market, could involve a CME participant influencing the EFP prices offered to DEFI. Presumably, such attempted manipulation would be strictly monitored, prevented, and if need be, sanctioned by CME. With the potential listing of DEFI on the Exchange, however, the DEFI Shares may be susceptible to the kinds of trade practice violations and market manipulation that must be monitored in the traditional market, as with any ETP.

Finally, DV agrees that trading in the Shares would not be the predominant influence on prices in the CME bitcoin futures market. The significant liquidity in CME's bitcoin futures, supported by a diverse group of market participants engaged in price discovery, suggests that the EFPs utilized by the Fund would not disproportionately affect market prices on CME.

4. The Fund will only use CME EFP transactions to acquire and dispose of spot bitcoin. The Exchange states that “trading activity in EFP transactions is sporadic” but that, “[n]onetheless, the Sponsor believes that a large number of liquidity providers are ready to execute this type of

transaction and can provide enough liquidity to support the [Fund's] demand." Do commenters agree? Why or why not?

RESPONSE: DV Chain agrees that there are many liquidity providers who can service this type of transaction. Like DV Chain, many crypto professional trading firms have their roots in traditional finance. The DV Companies actively participate in multiple liquidity provider programs on CME and other regulated venues. As bitcoin's popularity grew, beginning in 2016, the DV Companies and many of their peers spun off crypto trading firms. Now, more than seven years later, these firms have developed a comprehensive and robust infrastructure, enabling them to support large-scale trading in both bitcoin and bitcoin futures efficiently.

5. The value of spot bitcoin held by the Fund would be determined using a futures-based spot price methodology that is derived from the settlement prices of bitcoin futures contracts on the CME. The Exchange presents data that it states "strongly suggests that [futures-based spot pricing] is a suitable choice for the NAV calculation." The Exchange states that futures-based spot pricing "could create some level of uncertainty due to the potential divergences between the [futures-based spot price] and the spot prices observed in unregulated markets" but that authorized participants "will always be in a position to hedge their exposure using exclusively the [CME bitcoin futures market], which will make them more likely to provide liquidity to the Fund thus making its market price converge to its NAV." Do commenters agree with the Exchange? Why or why not?

RESPONSE: Through extensive research and a deep understanding of market dynamics, CME established a settlement methodology, real time index, and various reference rates for bitcoin. In conjunction with CME's well documented settlement methodology, CME is also a source of deep liquidity for bitcoin trading. It would stand to reason that leveraging CME's settlement to establish a price methodology for the Fund is prudent and thoughtful.

Bitcoin, now a mature market, exhibits strong resilience against price manipulation at any single venue. Attempts to significantly influence prices at one exchange are swiftly counteracted by other market participants, who will quickly buy/sell the premium/discount back into realignment with broader market trends. This market self-regulation ensures a stable and consistent trading environment for a product as liquid and decentralized as bitcoin. DV Chain generally agrees that the risk of significant divergence between the CME futures-based spot price and traditional spot price is minimal, as market participants continue to aid in price discovery and generally keep trading venues' prices aligned.

DV Chain thanks the Commission for the opportunity to comment on these important issues and respectfully encourages the approval of the filing. Please feel free to contact us with any questions you may have in our comments.

Sincerely,

/s/ David Vizsolyi
CEO
DV Chain