

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82484; File No. SR-CboeBZX-2018-001)

January 11, 2018

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to List and Trade Shares of the GraniteShares Bitcoin ETF and the GraniteShares Short Bitcoin ETF, a Series of the GraniteShares ETP Trust, Under Rule 14.11(f)(4), Trust Issued Receipts

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 5, 2018, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange filed a proposal to list and trade shares of the GraniteShares Bitcoin ETF and the GraniteShares Short Bitcoin ETF (each a “Fund” and, collectively, the “Funds”), a series of the GraniteShares ETP Trust (the “Trust”), under Rule 14.11(f)(4) (“Trust Issued Receipts”). The shares of the Funds are referred to herein as the “Shares.”

The text of the proposed rule change is available at the Exchange’s website at [www.markets.cboe.com](http://www.markets.cboe.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

(A) Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to list and trade shares of the GraniteShares Bitcoin ETF (the “Long Fund”) and the GraniteShares Short Bitcoin ETF (the “Short Fund”) under Rule 14.11(f)(4), which governs the listing and trading of Trust Issued Receipts<sup>3</sup> on the Exchange.<sup>4</sup>

The Shares will be offered by the Trust, which was established as a Delaware statutory trust on November 7, 2016. The Trust will not be registered as an investment company under the Investment Company Act of 1940 and is not required to register under such act.<sup>5</sup> The Trust is registered as a commodity pool under the Commodity Exchange Act (“CEA”).<sup>6</sup> The Shares of the Trust will be registered with the Commission by means of the Trust’s registration statement

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<sup>3</sup> Rule 14.11(f)(4) applies to Trust Issued Receipts that invest in “Financial Instruments.” The term “Financial Instruments,” as defined in Rule 14.11(f)(4)(A)(iv), means any combination of investments, including cash; securities; options on securities and indices; futures contracts; options on futures contracts; forward contracts; equity caps, collars and floors; and swap agreements.

<sup>4</sup> The Commission approved BZX Rule 14.11(f)(4) in Securities Exchange Act Release No. 68619 (January 10, 2013), 78 FR 3489 (January 16, 2013) (SR-BATS-2012-044).

<sup>5</sup> 15 U.S.C. 80a-1.

<sup>6</sup> 17 U.S.C. 1.

on Form S-1 (the “Registration Statement”) under the Securities Act of 1933 (the “Securities Act”). The Registration Statement was filed on December 15, 2017 and the Registration Statement will be effective as of the date of any offer and sale pursuant to the Registration Statement.<sup>7</sup>

GraniteShares Advisors LLC (the “Sponsor”) serves as the Trust’s sponsor and commodity pool operator and is a member of the National Futures Association (the “NFA”). As a member of the NFA, the Sponsor is subject to NFA standards relating to fair trade practices, financial condition, and consumer protection. Bank of New York Mellon serves as administrator, custodian, and transfer agent for the Funds. Foreside Fund Services, LLC (“Marketing Agent”) serves as the distributor for the Trust.

The Funds are not actively managed by traditional methods (e.g., by effecting changes in the composition of a portfolio on the basis of judgments relating to economic, financial and market considerations with a view toward obtaining positive results under all market conditions) other than for cash management purposes and the rolling methodology employed by the Sponsor described below.

#### Bitcoin Futures Contracts

Prior to listing a new commodity futures contract, a designated contract market must either submit a self-certification to the CFTC that the contract complies with the CEA and CFTC regulations or voluntarily submit the contract for CFTC approval. This process applies to all futures contracts and all commodities underlying the futures contracts, whether the new futures

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<sup>7</sup> See Registration Statement on Form S-1, dated December 15, 2017 (File No. 333-222109). The descriptions of the Trust and the Shares contained herein are based, in part, on information in the Registration Statement.

contracts are related to oil, gold, or any other commodity.<sup>8</sup> On December 1, 2017, it was announced<sup>9</sup> that both Cboe Futures Exchange, Inc. (“CFE”) and Chicago Mercantile Exchange, Inc. (“CME”) had self-certified with the CFTC new contracts for bitcoin<sup>10</sup> futures products.<sup>11</sup> While the CFE bitcoin futures contracts (“XBT Futures” and the “Benchmark Futures Contracts”)<sup>12</sup> and the CME bitcoin futures contracts (“CME Futures”)<sup>13</sup> will differ in certain of their implementation details, both contracts will generally trade and settle like any other cash-settled commodity futures contracts.<sup>14</sup>

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<sup>8</sup> Section 1a(9) of the CEA defines commodity to include, among other things, “all services, rights, and interests in which contracts for future delivery are presently or in the future dealt in.” The definition of commodity is broad. 7 U.S.C. § 1a(9).

<sup>9</sup> See “CFTC Statement on Self-Certification of Bitcoin Products by CME, CFE and Cantor Exchange,” dated December 1, 2017, available at <http://www.cftc.gov/PressRoom/PressReleases/pr7654-17>.

<sup>10</sup> Bitcoin is a digital asset based on the decentralized, open source protocol of the peer-to-peer bitcoin computer network (the “Bitcoin Network”). No single entity owns or operates the Bitcoin Network; the infrastructure is collectively maintained by a decentralized user base. The Bitcoin Network is accessed through software, and software governs bitcoin’s creation, movement, and ownership. The value of bitcoin is determined by the supply of and demand for bitcoin on websites that facilitate the transfer of bitcoin in exchange for government-issued currencies, and in private end-user-to-end-user transactions.

<sup>11</sup> Bitcoin is a commodity as defined in Section 1a(9) of the CEA. 7 U.S.C. § 1a(9). See In re Coinflip, Inc., No. 15-29 (CFTC Sept. 17, 2015), available at: <http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfcoinfliporder09172015.pdf>.

<sup>12</sup> The XBT Futures are cash-settled futures contracts based on the auction price of bitcoin in U.S. dollars on the Gemini Exchange that will expire on a weekly, monthly and quarterly basis. XBT Futures are designed to reflect economic exposure related to the price of bitcoin. XBT Futures began trading on December 10, 2017.

<sup>13</sup> The CME Futures are also cash-settled futures contracts based on the CME CF Bitcoin Reference Rate, which is based on an aggregation of trade flow from several bitcoin spot exchanges, that will expire on a monthly and quarterly basis. CME Futures began trading on December 17, 2017.

<sup>14</sup> CFE and CME are registered with the CFTC and seek to provide a neutral, regulated marketplace for the trading of derivatives contracts for commodities, such as futures,

As such, the Exchange is proposing to list and trade the Funds under Rule 14.11(f)(4), which governs the listing and trading of Trust Issued Receipts on the Exchange.

#### GraniteShares Bitcoin ETF

The Long Fund seeks as its investment objective results (before fees and expenses) that, both for a single day<sup>15</sup> and over time, match the performance of lead month Benchmark Futures Contracts. By being long Bitcoin Futures Contracts, as defined below, the Long Fund seeks to benefit from daily increases in the price of the Bitcoin Futures Contracts and will lose value when the price of the Bitcoin Futures Contracts decline.

#### GraniteShares Short Bitcoin ETF

The Short Fund seeks to provide investment results that, on a daily basis correspond (before fees and expenses) to the inverse (-1x) of the daily performance of the Benchmark Futures Contracts for a single day. By being short Bitcoin Futures Contracts, as defined below, the Short Fund seeks to benefit from daily decreases in the price of the Bitcoin Futures Contracts and will lose value when the price of the Bitcoin Futures Contracts increase.

#### Investment Strategies

Each Fund will, under Normal Market Conditions,<sup>16</sup> hold substantially all of its assets in the Benchmark Futures Contracts and cash and Cash Equivalents<sup>17</sup> (which are used to

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options and certain swaps. Both the CFE and CME are both members of the Intermarket Surveillance Group (“ISG”).

<sup>15</sup> A “single day” is measured from the time a Fund calculates its net asset value (“NAV”) to the time of the Fund’s next NAV calculation. The NAV calculation time for the Funds will typically be 4:00 p.m. Eastern time.

<sup>16</sup> The term “Normal Market Conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues causing dissemination of inaccurate market information or system failures; or force majeure type events such as natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

collateralize the Benchmark Futures Contracts) in order to achieve its investment objective. Although the Funds generally intend to invest substantially all of their respective assets in Benchmark Futures Contracts, the Funds may invest in other U.S. exchange-listed bitcoin futures contracts, as available, in addition to the Benchmark Futures Contracts (collectively, with Benchmark Futures Contracts, the “Bitcoin Futures Contracts”). In the event that position price, or accountability limits are reached with respect to Bitcoin Futures Contracts, each Fund may invest in U.S. listed swaps on bitcoin or the Benchmark Futures Contracts (“Listed Bitcoin Swaps”). In the event that position price or accountability limits are reached with respect to Listed Bitcoin Swaps, each Fund may invest in OTC swaps on bitcoin or the Benchmark Futures Contracts.

Each Fund intends to enter into swap agreements only with major, global financial institutions that meet certain credit quality standards and monitoring policies. The Funds will each use various techniques to minimize credit risk, including posting collateral daily that is marked to market, using different counterparties, and limiting the net amount due from any individual counterparty.

Bitcoin Futures Contracts are measures of the market’s expectation of the price of bitcoin at certain points in the future, and as such will behave differently than current or spot bitcoin

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<sup>17</sup> “Cash and Cash Equivalents” means short-term instruments with maturities of less than three months, including: (i) U.S. Government securities, including bills, notes, and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities; (ii) certificates of deposit issued against funds deposited in a bank or savings and loan association; (iii) bankers acceptances, which are short-term credit instruments used to finance commercial transactions; (iv) repurchase agreements and reverse repurchase agreements; (v) bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest; (vi) commercial paper, which are short-term unsecured promissory notes; and (vii) money market funds.

prices. The Funds are not linked to bitcoin and in many cases the Funds could significantly underperform or outperform the price of bitcoin.

The Funds do not intend to hold Bitcoin Futures Contracts through expiration, but instead intend to either close or “roll” their respective positions. When the market for these contracts is such that the prices are higher in the more distant delivery months than in the nearer delivery months, the sale during the course of the “rolling process” of the more nearby contract would take place at a price that is lower than the price of the more nearby Bitcoin Futures Contracts would take place at a price that is lower than the price of the more distant Bitcoin Futures Contracts [sic]. This pattern of higher futures prices for longer expiration Bitcoin Futures Contracts is referred to as “contango.” Alternatively, when the market for certain Bitcoin Futures Contracts is such that the prices are higher in the nearer months than in the more distant months, the sale during the course of the “rolling process” of the more nearby Bitcoin Futures Contracts would take place at a price that is higher than the price of the more distant Bitcoin Futures Contracts. This pattern of higher future prices for shorter expiration Bitcoin Futures Contracts is referred to as “backwardation.” The presence of contango in the relevant Bitcoin Futures Contracts at the time of rolling would be expected to adversely affect the long positions held by the Long Fund, and positively affect the short positions held by the Short Fund. Similarly, the presence of backwardation in Bitcoin Futures Contracts at the time of rolling such Bitcoin Futures Contracts would be expected to adversely affect the short positions held by the Short Fund and positively affect the long positions held by the Long Fund.

Each Fund’s investments will be consistent with its investment objective and will not be used to enhance leverage (although certain derivatives and other investments may result in

leverage).<sup>18</sup> Each Fund's investments will not be used to seek performance that is the multiple or inverse multiple (i.e. 2x or -2x) of the Index. Each Fund's use of derivative instruments will be collateralized.

#### Policy Considerations

The Exchange recognizes that certain policy concerns exist as it relates to any series of Trust Issued Receipts that are listed on the Exchange, but that these concerns, as well as certain other concerns raised by this proposal specifically, are mitigated as it relates to the Funds and their holdings for the reasons enumerated below.

First, the Exchange believes that the policy concerns related to an underlying reference asset and its susceptibility to manipulation are mitigated as it relates to bitcoin because the very nature of the bitcoin ecosystem makes manipulation of bitcoin difficult. 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, that 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

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<sup>18</sup> The Funds will each include appropriate risk disclosure in its offering documents, including leveraging risk. Leveraging risk is the risk that certain transactions of a fund, including a fund's use of derivatives, may give rise to leverage, causing a fund to be more volatile than if it had not been leveraged.

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 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 exchanges, the relatively slow speed of transactions, and the capital necessary to maintain a significant presence on each exchange 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 price on any single venue would require manipulation of the global bitcoin price in order to be effective. Arbitrageurs must have funds distributed across multiple bitcoin exchanges 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. As a result, the potential for manipulation on a particular bitcoin exchange would require overcoming the liquidity supply of such arbitrageurs who are effectively eliminating any cross-market pricing differences. For all of these reasons, bitcoin is not particularly susceptible to manipulation, especially as compared to other approved ETP reference assets.

Second, the Exchange believes that the policy concerns related to the susceptibility to manipulation of an underlying futures contract is, in addition to the arguments above, further mitigated by the significant liquidity that the Exchange expects to exist in the market for Bitcoin Futures Contracts. This belief is based on numerous conversations with market participants, issuers, and discussions with personnel of CFE. This expected liquidity in the market for Bitcoin

Futures Contracts combined with the CFE, CME, and Exchange surveillance procedures related to the Bitcoin Futures, the Shares, and CFTC oversight,<sup>19</sup> along with the difficulty in manipulating the bitcoin market described above will mitigate the potential policy concerns and further prevent trading in the Shares from being susceptible to manipulation.

#### Net Asset Value

According to the Registration Statement, the net asset value (“NAV”) of the Shares of the Funds will be calculated by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees, including the management and administration fees, are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is generally determined at 4:00 p.m. Eastern Time each business day when the Exchange is open for trading. If the Exchange or market on which the Fund’s investments are primarily traded closes early, the NAV may be calculated prior to its normal calculation time. Creation/redemption transaction order time cutoffs (as further described below) would also be accelerated.

Bitcoin Futures Contracts are generally valued at their settlement price as determined by the relevant exchange. Cash and Cash Equivalents will generally be valued at their market price

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<sup>19</sup> The CFTC issued a press release on December 1, 2017, noting the self-certifications from CFE and CME and highlighting the rigorous process that the CFTC had undertaken in its engagement with CFE and CME prior to the self-certification for the Bitcoin Futures Contracts. The press release focused on the ongoing surveillances that will occur on each listing exchange, including surveillance based on information sharing with the underlying cash bitcoin exchanges as well as the actions that the CFTC will undertake after the contracts are launched, including monitoring and analyzing the size and development of the market, positions and changes in positions over time, open interest, initial margin requirements, and variation margin payments, stress testing positions, conduct reviews of designated contract markets, derivatives clearing organizations, clearing firms, and individual traders involved in trading and clearing bitcoin futures. For more information, see <http://www.cftc.gov/PressRoom/PressReleases/pr7654-17>.

using market quotations or information provided by a pricing service. Listed Bitcoin Swaps are generally valued at their settlement price as determined by the relevant swap execution facility. OTC swaps will be valued based on the then-current disseminated levels for the Bitcoin Futures Contracts or the applicable reference price for bitcoin applicable to the contract.

For more information regarding the valuation of Fund investments in calculating a Fund's NAV, see the Registration Statement.

### The Shares

The Funds will issue and redeem Shares on a continuous basis at the NAV per Share only in large blocks of a specified number of Shares or multiples thereof ("Creation Units") in transactions with authorized participants who have entered into agreements with the Distributor. The Adviser currently anticipates that a Creation Unit will consist of 10,000 Shares, though this number may change from time to time, including prior to listing of the Shares. The exact number of Shares that will constitute a Creation Unit will be disclosed in the Registration Statement. Once created, Shares of the Funds may trade on the secondary market in amounts less than a Creation Unit.

Although the Adviser anticipates that purchases and redemptions for Creation Units will generally be executed on an all-cash basis, the consideration for purchase of Creation Units of the Funds may consist of an in-kind deposit of a designated portfolio of assets (including any portion of such assets for which cash may be substituted) (*i.e.*, the "Deposit Assets"), and the "Cash Component" computed as described below. Together, the Deposit Assets and the Cash Component constitute the "Fund Deposit," which represents the minimum initial and subsequent investment amount for a Creation Unit of the Fund. The specific terms surrounding the creation and redemption of shares are at the discretion of the Adviser.

The Deposit Assets and Fund Securities (as defined below), as the case may be, in connection with a purchase or redemption of a Creation Unit, generally will correspond pro rata, to the extent practicable, to the assets held by the Funds.

The Cash Component will be an amount equal to the difference between the NAV of the Shares (per Creation Unit) and the “Deposit Amount,” which will be an amount equal to the market value of the Deposit Assets, and serve to compensate for any differences between the NAV per Creation Unit and the Deposit Amount. The Funds generally offer Creation Units partially or entirely for cash. The Adviser will make available through the National Securities Clearing Corporation (“NSCC”) on each business day, prior to the opening of business on the Exchange, the list of names and the required number or par value of each Deposit Asset and the amount of the Cash Component to be included in the current Fund Deposit (based on information as of the end of the previous business day) for the Fund.

The identity and number or par value of the Deposit Assets may change pursuant to changes in the composition of a Fund’s portfolio as rebalancing and rolling adjustments and corporate action events occur from time to time. The composition of the Deposit Assets may also change in response to adjustments to the weighting or composition of the holdings of the Fund.

The Fund reserves the right to permit or require the substitution of a “cash in lieu” amount to be added to the Cash Component to replace any Deposit Asset that may not be available in sufficient quantity for delivery or that may not be eligible for transfer through the Depository Trust Company (“DTC”) or the clearing process through the NSCC.<sup>20</sup>

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<sup>20</sup> The Adviser represents that, to the extent the Trust permits or requires a “cash in lieu” amount, such transactions will be effected in the same or equitable manner for all authorized participants.

Except as noted below, all creation orders must be placed for one or more Creation Units and must be received by the Distributor at a time specified by the Adviser. The Fund currently intends that such orders must be received in proper form no later than 2:00 p.m. Eastern Time on the date such order is placed in order for creation of Creation Units to be effected based on the NAV of Shares of each Fund as next determined on such date after receipt of the order in proper form. The “Settlement Date” is generally the second business day after the transmittal date. On days when the Exchange or the futures markets close earlier than normal, the Funds may require orders to create or to redeem Creation Units to be placed earlier in the day.

Fund Deposits must be delivered through either the Continuous Net Settlement facility of the NSCC, the Federal Reserve System (for cash and government securities), through DTC (for corporate securities), or through a central depository account, such as with Euroclear or DTC, maintained by each Fund’s Custodian (a “Central Depository Account”), in any case at the discretion of the Adviser, by an authorized participant. Any portion of a Fund Deposit that may not be delivered through the NSCC, Federal Reserve System or DTC must be delivered through a Central Depository Account.

A standard creation transaction fee may be imposed to offset the transfer and other transaction costs associated with the issuance of Creation Units.

Shares of the Funds may be redeemed only in Creation Units at their NAV next determined after receipt of a redemption request in proper form by the Distributor and only on a business day. The Adviser will make available through the NSCC, prior to the opening of business on the Exchange on each business day, the designated portfolio of assets (including any portion of such assets for which cash may be substituted) that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form on that day

(“Fund Securities”). The redemption proceeds for a Creation Unit generally will consist of a specified amount of cash less a redemption transaction fee. The Fund generally will redeem Creation Units entirely for cash.

A standard redemption transaction fee may be imposed to offset transfer and other transaction costs that may be incurred by the Fund.

Redemption requests for Creation Units of the Funds must be submitted to the Distributor by or through an authorized participant by a time specified by the Adviser. The Fund currently intends that such requests must be received no later than 3:30 p.m. Eastern Time on any business day, in order to receive that day’s NAV. The authorized participant must transmit the request for redemption in the form required by the Funds to the Distributor in accordance with procedures set forth in the authorized participant agreement.

Additional information regarding the Shares and the Funds, including investment strategies, risks, creation and redemption procedures, fees and expenses, portfolio holdings disclosure policies, distributions, taxes and reports to be distributed to beneficial owners of the Shares can be found in the Registration Statement or on the website for the Funds ([www.GraniteShares.com](http://www.GraniteShares.com)), as applicable.

#### Availability of Information

The Funds’ website, which will be publicly available prior to the public offering of Shares, will include a form of the prospectus for each Fund that may be downloaded. The websites will include additional quantitative information updated on a daily basis, including, for the Fund: (1) the prior business day’s reported NAV, the closing market price or the midpoint of

the bid/ask spread at the time of calculation of such NAV (the “Bid/Ask Price”),<sup>21</sup> daily trading volume, and a calculation of the premium and discount of the closing market price or Bid/Ask Price against the NAV; and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily closing market price or Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. Daily trading volume information will be available in the financial section of newspapers, through subscription services such as Bloomberg, Thomson Reuters, and International Data Corporation, which can be accessed by authorized participants and other investors, as well as through other electronic services, including major public websites. On each business day, before commencement of trading in Shares during Regular Trading Hours<sup>22</sup> on the Exchange, each Fund will disclose on its website the identities and quantities of the portfolio Bitcoin Futures Contracts and other assets (the “Disclosed Portfolio”) held by the Fund that will form the basis for the Fund’s calculation of NAV at the end of the business day.<sup>23</sup> The Disclosed Portfolio will include, as applicable: ticker symbol or other identifier, a description of the holding, identity of the asset upon which the derivative is based, the quantity of each security or other asset held as measured by select metrics, maturity date, coupon rate, effective date, market value and percentage weight of the holding in the portfolio. The website and information will be publicly available at no charge.

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<sup>21</sup> The Bid/Ask Price of each Fund will be determined using the midpoint of the highest bid and the lowest offer on the Exchange as of the time of calculation of the Fund’s NAV. The records relating to Bid/Ask Prices will be retained by the Funds and their service providers.

<sup>22</sup> Regular Trading Hours are 9:30 a.m. to 4:00 p.m. Eastern Time.

<sup>23</sup> Under accounting procedures to be followed by the Funds, trades made on the prior business day (“T”) will be booked and reflected in NAV on the current business day (“T+1”). Accordingly, each Fund will be able to disclose at the beginning of the business day the portfolio that will form the basis for the NAV calculation at the end of the business day.

In addition, for each Fund, an estimated value that reflects an estimated intraday value of the Fund's portfolio (the "Intraday Indicative Value"), will be disseminated. Moreover, the Intraday Indicative Value will be based upon the current value for the components of the Disclosed Portfolio and will be updated and widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange's Regular Trading Hours.<sup>24</sup> In addition, the quotations of certain of each Fund's holdings may not be updated for purposes of calculating Intraday Indicative Value during U.S. trading hours where the market on which the underlying asset is traded settles prior to the end of the Exchange's Regular Trading Hours.

The dissemination of the Intraday Indicative Value, together with the Disclosed Portfolio, will allow investors to determine the value of the underlying portfolio of each Fund on a daily basis and provide an estimate of that value throughout the trading day.

Intraday price quotations on Cash Equivalents of the type held by the Funds are available from major broker-dealer firms and from third-parties, which may provide prices free with a time delay, or "live" with a paid fee. For Bitcoin Futures Contracts and Listed Bitcoin Swaps, such intraday information is available directly from the applicable listing venue. Intraday price information is also available through subscription services, such as Bloomberg and Thomson Reuters, which can be accessed by authorized participants and other investors. Pricing information related to Cash Equivalents will be available through issuer websites and publicly available quotation services such as Bloomberg, Markit and Thomson Reuters.

Information regarding market price and volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other

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<sup>24</sup> Currently, it is the Exchange's understanding that several major market data vendors display and/or make widely available Intraday Indicative Values published via the Consolidated Tape Association ("CTA") or other data feeds.

electronic services. The previous day's closing price and trading volume information for the Shares will be generally available daily in the print and online financial press. Quotation and last sale information for the Shares will be available on the facilities of the CTA.

#### Initial and Continued Listing

The Shares will be subject to BZX Rule 14.11(f)(4), which sets forth the initial and continued listing criteria applicable to Trust Issued Receipts that invest in Financial Instruments. The Exchange will obtain a representation that the Trust's NAV will be calculated daily and that these values and information about the assets of the Trust will be made available to all market participants at the same time. The Trust currently expects that there will be at least 20,000 Shares outstanding at the time of commencement of trading on the Exchange. Upon termination of the Trust, the Shares will be removed from listing. The Trustee, Wilmington Trust Company, is a trust company having substantial capital and surplus and the experience and facilities for handling corporate trust business, as required under Rule 14.11(f)(2)(D)(iv)(a) and that no change will be made to the trustee without prior notice to and approval of the Exchange.

As required in Rule 14.11(f)(4)(D), the Exchange notes that any registered market maker ("Market Maker") in the Shares must file with the Exchange in a manner prescribed by the Exchange and keep current a list identifying all accounts for trading in an underlying commodity, related commodity futures or options on commodity futures, or any other related commodity derivatives, which the registered Market Maker may have or over which it may exercise investment discretion. No registered Market Maker shall trade in an underlying commodity, related commodity futures or options on commodity futures, or any other related commodity derivatives, in an account in which a registered Market Maker, directly or indirectly, controls trading activities, or has a direct interest in the profits or losses thereof, which has not

been reported to the Exchange as required by this Rule. In addition to the existing obligations under Exchange rules regarding the production of books and records (see, e.g., Rule 4.2), the registered Market Maker in Trust Issued Receipts shall make available to the Exchange such books, records or other information pertaining to transactions by such entity or registered or non-registered employee affiliated with such entity for its or their own accounts for trading the underlying physical commodity, related commodity futures or options on commodity futures, or any other related commodity derivatives, as may be requested by the Exchange.

#### Trading Halts

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares. The Exchange will halt trading in the Shares under the conditions specified in BZX Rule 11.18. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the bitcoin underlying the Shares; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares also will be subject to Rule 14.11(f)(4)(C)(ii), which sets forth circumstances under which trading in the Shares may be halted and delisting proceedings commenced.

#### Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. BZX will allow trading in the Shares from 8:00 a.m. until 5:00 p.m. Eastern Time. The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in BZX Rule 11.11(a) the minimum price variation for quoting and entry of orders in securities

traded on the Exchange is \$0.01 where the price is greater than \$1.00 per share or \$0.0001 where the price is less than \$1.00 per share.

### Surveillance

The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Additionally, the Bitcoin Futures Contracts will be subject to the rules and surveillance programs of CFE, CME, and the CFTC.<sup>25</sup> Trading of the Shares through the Exchange will be subject to the Exchange's surveillance procedures for derivative products, including Trust Issued Receipts. The Exchange or FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares and the underlying Bitcoin Futures Contracts via ISG from other exchanges who are members or affiliates of the ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement.<sup>26</sup> The Exchange may also obtain information regarding trading

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<sup>25</sup> The CFTC issued a press release on December 1, 2017, noting the self-certifications from CFE and CME and highlighting the rigorous process that the CFTC had undertaken in its engagement with CFE and CME prior to the self-certification for the Bitcoin Futures Contracts. The press release focused on the ongoing surveillances that will occur on each listing exchange, including surveillance based on information sharing with the underlying cash bitcoin exchanges as well as the actions that the CFTC will undertake after the contracts are launched, including monitoring and analyzing the size and development of the market, positions and changes in positions over time, open interest, initial margin requirements, and variation margin payments, stress testing positions, conduct reviews of designated contract markets, derivatives clearing organizations, clearing firms, and individual traders involved in trading and clearing bitcoin futures. For more information, see <http://www.cftc.gov/PressRoom/PressReleases/pr7654-17>.

<sup>26</sup> For a list of the current members and affiliate members of ISG, see [www.isgportal.com](http://www.isgportal.com). The Exchange notes that not all components of the Disclosed Portfolio for each Fund may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. Not more than 10% of the net assets of a Fund in the aggregate invested in Bitcoin Futures Contracts shall consist of Bitcoin

in the spot bitcoin market from exchanges with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, the Exchange is able to access, as needed, trade information for certain fixed income instruments reported to FINRA's Trade Reporting and Compliance Engine ("TRACE"). The Exchange prohibits the distribution of material non-public information by its employees.

#### Information Circular

Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Shares. Specifically, the Information Circular will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (2) Exchange Rule 3.7, which imposes suitability obligations on Exchange members with respect to recommending transactions in the Shares to customers; (3) how information regarding the Intraday Indicative Value is disseminated; (4) the risks involved in trading the Shares during the Pre-Opening<sup>27</sup> and After Hours Trading Sessions<sup>28</sup> when an updated Intraday Indicative Value will not be calculated or publicly disseminated; (5) the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information.

In addition, the Information Circular will advise members, prior to the commencement of trading, of the prospectus delivery requirements applicable to the Fund. Members purchasing Shares from the Funds for resale to investors will deliver a prospectus to such investors. The

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Futures Contracts whose principal market is not a member of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

<sup>27</sup> The Pre-Opening Session is from 8:00 a.m. to 9:30 a.m. Eastern Time.

<sup>28</sup> The After Hours Trading Session is from 4:00 p.m. to 5:00 p.m. Eastern Time.

Information Circular will also discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act.

In addition, the Information Circular will reference that each Fund is subject to various fees and expenses described in the Registration Statement. The Information Circular will also disclose the trading hours of the Shares of the Funds and the applicable NAV calculation time for the Shares. The Information Circular will disclose that information about the Shares of the Funds will be publicly available on that Fund's website. In addition, the Information Circular will reference that the Trust is subject to various fees and expenses described in the Registration Statement.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act<sup>29</sup> in general and Section 6(b)(5) of the Act<sup>30</sup> in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Additionally, the Bitcoin Futures Contracts will be subject to the rules and surveillance

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<sup>29</sup> 15 U.S.C. 78f.

<sup>30</sup> 15 U.S.C. 78f(b)(5).

programs of CFE, CME, and the CFTC. Trading of the Shares through the Exchange will be subject to the Exchange's surveillance procedures for derivative products, including Trust Issued Receipts. The Exchange or FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares and the underlying Bitcoin Futures Contracts via ISG, from other exchanges who are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement. The Exchange may also obtain information regarding trading in the spot bitcoin market via the ISG, from other exchanges who are members or affiliates of the ISG, or from other exchanges with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, the Exchange is able to access, as needed, trade information for certain fixed income instruments reported to TRACE. The Exchange prohibits the distribution of material non-public information by its employees. The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws.

The Exchange further believes that the proposal is designed to prevent fraudulent and manipulative acts and practices in that the Exchange expects that the market for Bitcoin Futures Contracts will be sufficiently liquid to support numerous ETPs shortly after launch. This belief is based on numerous conversations with market participants, issuers, and discussions with personnel of CFE. As such, the Exchange believes that the expected liquidity in the market for Bitcoin Futures Contracts combined with the Exchange surveillance procedures related to the Shares and the broader regulatory structure will prevent trading in the Shares from being susceptible to manipulation.

Because of its innovative features as a cryptoasset, bitcoin has gained wide acceptance as a secure means of exchange in the commercial marketplace and has generated significant interest among investors. In less than a decade since its creation in 2008, bitcoin has achieved significant market penetration, with payments giant PayPal and thousands of merchants and businesses accepting it as a form of commercial payment, as well as receiving official recognition from several governments, including Japan and Australia. Accordingly, investor interest in gaining exposure to bitcoin is increasing exponentially as well. As expected, the total volume of bitcoin transactions in the market continues to grow exponentially.

Despite the growing investor interest in bitcoin, the primary means for investors to gain access to bitcoin exposure remains either through the Bitcoin Futures Contracts or direct investment through bitcoin exchanges or over-the-counter trading. For regular investors simply wishing to express an investment viewpoint in bitcoin, investment through the Bitcoin Futures Contracts is complex and requires active management and direct investment in bitcoin brings with it significant inconvenience, complexity, expense and risk. The Shares would therefore represent a significant innovation in the bitcoin market by providing an inexpensive and simple vehicle for investors to gain long or short exposure to bitcoin in a secure and easily accessible product that is familiar and transparent to investors. Such an innovation would help to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest by improving investor access to bitcoin exposure through efficient and transparent exchange-traded derivative products.

In addition to improved convenience, efficiency and transparency, the Funds will also help to prevent fraudulent and manipulative acts and practices by enhancing the security afforded to investors as compared to a direct investment in bitcoin. Despite the extensive security

mechanisms built into the Bitcoin network, a remaining risk to owning bitcoin directly is the need for the holder to retain and protect the “private key” required to spend or sell bitcoin after purchase. If a holder’s private key is compromised or simply lost, their bitcoin can be rendered unavailable – *i.e.*, effectively lost to the investor. This risk will be eliminated by the Long Fund because the exposure to bitcoin is gained through cash-settled Bitcoin Futures Contracts that do not present any of the security issues that exist with direct investment in bitcoin.

The Funds expect that they will generally seek to remain fully exposed to Bitcoin Futures Contracts even during times of adverse market conditions. Under Normal Market Conditions, the Funds will generally hold only Bitcoin Futures Contracts and cash and Cash Equivalents (which are used to collateralize the Bitcoin Futures Contracts).

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest in that the Exchange will obtain a representation from the issuer of the Shares that the NAV will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time. In addition, a large amount of information is publicly available regarding the Funds and the Shares, thereby promoting market transparency. Moreover, the Intraday Indicative Value will be disseminated by one or more major market data vendors at least every 15 seconds during Regular Trading Hours. On each business day, before commencement of trading in Shares during Regular Trading Hours, each Fund will disclose on its website the Disclosed Portfolio that will form the basis for the Fund’s calculation of NAV at the end of the business day. Pricing information will be available on each Fund’s website including: (1) the prior business day’s reported NAV, the Bid/Ask Price of the Fund, and a calculation of the premium and discount of the Bid/Ask Price against the NAV; and (2) data in chart format displaying the frequency

distribution of discounts and premiums of the daily Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. Additionally, information regarding market price and trading of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services, and quotation and last sale information for the Shares will be available on the facilities of the CTA. The website for each Fund will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information. Trading in Shares of the Funds will be halted under the conditions specified in BZX Rule 11.18. Trading may also be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Finally, trading in the Shares will be subject to BZX Rule 14.11(f)(4)(B)(ii), which sets forth circumstances under which Shares of the Funds may be halted and delisting proceedings commenced. In addition, as noted above, investors will have ready access to information regarding each Fund's holdings, the Intraday Indicative Value, the Disclosed Portfolio, and quotation and last sale information for the Shares.

Intraday price quotations on Cash Equivalents of the type held by the Funds are available from major broker-dealer firms and from third-parties, which may provide prices free with a time delay, or "live" with a paid fee. For Bitcoin Futures Contracts and Listed Bitcoin Swaps, such intraday information is available directly from the applicable listing venue. Intraday price information is also available through subscription services, such as Bloomberg and Thomson Reuters, which can be accessed by authorized participants and other investors. Pricing information related to Cash Equivalents will be available through issuer websites and publicly available quotation services such as Bloomberg, Markit and Thomson Reuters.

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest in that it will facilitate the listing and trading of additional types of actively-managed exchange-traded products that will enhance competition among market participants, to the benefit of investors and the marketplace. As noted above, the Exchange has in place surveillance procedures relating to trading in the Shares and may obtain information via ISG from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement as well as trade information for certain fixed income instruments as reported to FINRA's TRACE. Not more than 10% of the net assets of a Fund in the aggregate invested in Bitcoin Futures Contracts shall consist of Bitcoin Futures Contracts whose principal market is not a member of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. In addition, as noted above, investors will have ready access to information regarding each Fund's holdings, the Intraday Indicative Value, the Disclosed Portfolio, and quotation and last sale information for the Shares.

For the above reasons, the Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act. The Exchange notes that the proposed rule change, rather will facilitate the listing and trading of additional actively-managed exchange-traded products that will enhance competition among both market participants and listing venues, to the benefit of investors and the marketplace.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve or disapprove the proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CboeBZX-2018-001 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CboeBZX-2018-001. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing will also be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All

submissions should refer to File Number SR-CboeBZX-2018-001 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>31</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>31</sup> 17 CFR 200.30-3(a)(12).