

Getting Ready For A Bitcoin ETF

Today bitcoin futures are available for retail and institutional traders, but U.S. investors have limited options for investing directly in Bitcoin exchange-traded funds (ETFs). Let's look back at the history of ETFs to see how Bitcoin ETFs could enable U.S. investors to invest directly, and what options are currently available.

Learning From ETF History

In 1989, the [first attempt at an ETF](#) hit the American Stock Exchange. Following the success of [John Bogle's First Index Investment Trust](#) in 1975 and [index futures](#) in 1982, the Index Participation Shares fund was set up to proxy an index fund of the S&P 500.

At the outset, investor interest was extremely high. However, a federal court in Chicago quickly found that Index Participation Shares functioned too much like futures contracts. The court ruled that the fund needed to be traded on a futures exchange to be legally viable. This ruling led to the launch of State Street's S&P Trust ETF (SPY) in 1993, the first regulated ETF a.k.a. SPDR. Today, SPY is one of the best-rated ETFs with the greatest trading volume and more than \$260 billion assets under management (AUM).

While it took nearly 15 years for ETFs to reach mass appeal, their touch-and-go beginning provided the regulatory clarity for a new financial sector to blossom, as well as a roadmap for future offerings. Now the ETF market, which is essentially a derivatives market, represents approximately \$4.3 trillion across 2,000-plus exchange-traded funds and products. That's \$2.5 trillion *more* than the entire hedge fund industry.

Following State Street's Road Map

Taking a page out of State Street's success with its ubiquitous S&P 500 index fund, a variety of financial firms have been designing Bitcoin ETF proposals since early 2013. Their goal has been to launch a regulated investment vehicle that tracks the performance of bitcoin, providing consumer protected bitcoin exposure for retail and institutional investors alike.

Over a dozen firms, including the Winklevoss Bitcoin Trust, VanEck and BitWise, have filed Bitcoin ETF proposals with the SEC, but none has been approved to date. The SEC's rejections have focused on concern over custody, price transparency and market manipulation. [According to numerous rejection letters](#),

the SEC will not approve a Bitcoin ETF until surveillance-sharing agreements with underlying exchanges and regulatory requirements are satisfied.

[Kryptoin Investment Advisors](#) is a newcomer taking the long road to regulatory approval. Headed by former World Gold Council managing director and SPDR Gold Shares ETF portfolio manager, Jason Toussaint, Kryptoin aims to launch its Bitcoin ETF on NYSE Arca with surveillance-sharing agreements in place. The fund would price bitcoin using the [CME CF Bitcoin Reference Rate](#), which brokerages like Fidelity and TD Ameritrade already use to price bitcoin futures. Toussaint launched the SPDR Gold Shares in November 2004 with World Gold Trust Services and State Street to provide an ETF backed by physical gold. It too, was subject to regulatory scrutiny and hurdles, and is now marketed by State Street Global Advisors.

Canada Leads The Way

Meanwhile, due north, the 3iQ Bitcoin Fund was recently approved for public trading on the Toronto Stock Exchange (TSX). In April 2020, [3iQ Corp. launched the Bitcoin Fund in Canada](#), which now trades under the ticker TSX: QBTC.U.

QBTC.U is an exchange-traded product (ETP) that is priced using the MVIS CryptoCompare Institutional Bitcoin Index to track performance of bitcoin across multiple regulated exchanges. QBTC.U currently trades around \$12.59 per share and U.S. investors can trade 3iQ's Bitcoin Fund today using Fidelity and IBKR. The fund is directly invested in bitcoin and the net asset value (NAV) is based upon the price of bitcoin, minus an ongoing management fee (as outlined in [the prospectus](#)).

While we await the launch of a Bitcoin ETF in the U.S., 3iQ's Bitcoin Fund represents an exciting opportunity for regulated bitcoin exposure for Canadian and U.S. investors alike.

Special thanks to Alex Broudy for his contributions to this article. Broudy is a Blockchain Certified Business Analyst and Certified Scrum Master with a background in market research and analysis, omnichannel commerce and emerging technology.

Disclosure: Jack is an advisor and investor in 3iQ, which is the investment firm that created and manages the 3iQ Bitcoin Fund.