Spot Bitcoin ETFs arrive in the US: What does it mean for investors and the crypto market?

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WisdomTree
Contributor

After a long journey, the first spot bitcoin exchange-traded funds (ETFs) were approved in the United States of America. This is the latest step on the path to bitcoin, and digital assets more generally, becoming mainstream. To help clarify how this chain of events unfolded, and where the story could go next, this is an edited summary of a discussion with Ryan Louvar, Chief Legal Officer at WisdomTree, which took place in full on the Crypto Clarified podcast1.

The main points covered were:

- The main obstacles that had to be overcome for approval
- The reasons why a spot bitcoin ETF is a positive for investors and digital assets' place in a portfolio as a diversifier
- What to expect in terms of uptake over different timeframes
- What to expect in the near future as the asset class becomes more mainstream

Benjamin Dean (BD): Ryan, happy bitcoin spot ETF effective date to you.

Ryan Louvar (RL): It's a super exciting day. Even going back six months ago, I can't say I was on the optimist side. But seeing the Securities and Exchange Commission (SEC) grant an effective registration statement to allow bitcoin ETFs, as well as the listings, is great.

Obstacles to overcome

BD: What were those final obstacles that had to be overcome and how have almost a dozen different issuers had their applications approved and become effective?

RL: I was on a panel at Bitcoin 2021 with a couple of other ETF issuers. We were asked to predict if we thought that 2021 would be the year. There was some optimism because the new chairman of the SEC, Gary Gensler, had spoken at MIT about this topic. However, there were hurdles before through that prior SEC administration. I said that there was a decent chance 2021 would be the year. But we have a new SEC administration now, and the similar denials continued. The rationale was that there just aren't enough protective mechanisms in place to create a market that would be resistant to fraud and manipulation. Ultimately, the focus was on the spot bitcoin market, and the SEC said there needs to be a regulated spot bitcoin market of sufficient size to be able to trade. This was really against historical precedent because if you think about other spot markets like gold in particular, those ETFs had been approved and there isn't

a regulated gold market, certainly not one overseen by the SEC, and not one as had been described by the SEC as a requirement.

A watershed moment occurred when the SEC allowed futures ETFs, including bitcoin futures ETFs. They allowed a percentage of the underlying exposure to be futures and then allowed 100% futures exposure. Even at that point, WisdomTree was the first ETF to have any bitcoin futures exposure, with under 5% in one of our US-listed ETFs. The thought was that we were right there, almost at the finish line to then have a spot ETF. We chose at the time to have limited exposure because we thought that it had the potential to be a diversifier in a portfolio.

We chose not to launch a 100% bitcoin futures product just because of the potential issues in a 100% bitcoin futures product, such as contango and not tracking the price of bitcoin. We were very steadfast in our belief that a spot bitcoin product was the best execution for investors seeking exposure to the spot price of bitcoin. We leveraged our experience in Europe where we have a successful crypto exchange-traded product (ETP) range including a spot bitcoin ETP. There was really no action from the SEC until they got sued by Grayscale. There was a lawsuit from Grayscale, and they said that the SEC's decision here, the denials, were just arbitrary and capricious. A court agreed with them.

It's not often that the SEC loses. The court made it possible for the SEC to essentially include additional information for their decision. Based upon the past ten years, I thought that the SEC would continue to deny an approval and produce additional reasons for it. Ultimately, they had until 10 January to make that decision. Going back just three months ago, it wasn't clear what path the SEC was going to take. It only became clear once the SEC started to comment on the prospectuses after a few years of silence, that cleared the way for progress. Then you saw ETF issuers filing updated S-1 type of registration statements that include the prospectus. This was really a couple of months ago.

Then you saw a flurry of activity from the regulatory side, updated prospectuses every couple of weeks, then updated prospectuses every couple of days, to now, we are launching this morning. Yes, that's the history, it's hard to believe. It's really been truly historic. I mean, just the historical, call it a roller coaster ride.

Today we're excited to be an issuer launching a spot bitcoin ETF, but it's also historic to have all the other issuers launching as well. Our experience in ETFs both in Europe and digital assets is going to be a differentiator for us. It will be an interesting few months for sure.

Role in a portfolio as a potential diversifier

BD: Do you have any views or thoughts around how one should conceive the coming days, months, and years? What does success look like?

RL: If we look back on the birth of the US ETF industry with the SPDR, it took a couple of years for the SPDR to really take off and gain traction. Now it's over 20 years old, and I think it's over $300 billion at this point. I think we'll see the same with bitcoin, in taking time to fully gain traction. Going back a couple of years, financial advisors told us they have clients who'd like to have at least a portion of their portfolio in

an asset that can serve as a diversifier. It's got to be the right client as bitcoin is a volatile asset, so there's risk there.

Bitcoin can certainly serve its place in the right client's portfolio. Those advisors will now be trying to work with their clients to understand the full financial picture. Their client might say, "By the way, I have bitcoin as well and it's sitting in my personal wallets or on this third-party platform or wherever." So, really, by having the vehicle that's suited to many investors in the ETF, it will really help from a financial advisory standpoint as well as a general investor standpoint to have that access.

What could uptake look like in the near term?

BD: It's an interesting moment in the United States because the couple of years really, have been negative and so acrimonious. You go to Asia or Latin America and people don't have the same hangups. But in the US, it has been different.

RL: I was surprised when I travelled to many Asian countries over the summer and saw that bitcoin is widely available and used as a currency. Here in the US, being US-centric, we sometimes lose that perspective. We're getting used to inflation in the US but not hyperinflation. So, it's a great point that we don't see in the US much, so it surprised me during my travels abroad.

Where does the digital asset industry go from here?

BD: Looking at the US, what does this round of approvals mean for the digital asset industry? What do you see coming forward?

RL: I think the next turning point is Ether, the second largest cryptocurrency. There are now ETFs that hold Ethereum futures. So, if you think about the history, ETFs were first allowed by the SEC to hold bitcoin futures and then some months later, Ether futures. I do think those will be the next that might get attention. To me, the biggest thing is that bitcoin and digital assets more broadly are being talked about as investable assets. For us at WisdomTree it's important because we're not only focused on ETFs, which has been our historical focus, we're also bringing a direct-to-retail platform to investors in the US. Right now, they can directly access bitcoin via an app on their phone. They can directly access Ether, SEC-registered blockchain-enabled mutual funds and work with those in one portfolio.

So, I think having these avenues and bringing more attention to the asset class is only going to put a spotlight on how investors might be able to think about this new asset class and bitcoin in particular.

To listen to the Crypto Clarified edition related to this transcript click here.

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