

Could a bitcoin spot ETF from Blackrock be a turning point for cryptos?



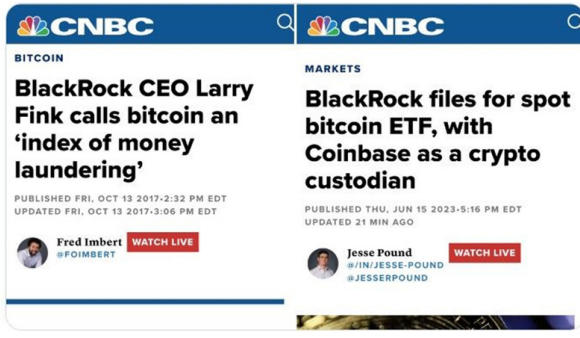
Image Source: fool.com

The world's largest asset manager has just filed an application with the US regulator to launch what could become the first ETF directly invested in bitcoin. What are the chances of success? What would be the consequences?

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Introduction

What an 180 from Larry Fink... In 2017, when asked about the future of bitcoin, Blackrock's Chairman and CEO compared the digital asset to a "money laundering index". Almost 6 years on, Blackrock's iShares company has just announced that it has filed an application with the Securities Exchange Commission (SEC) to launch an Exchange Traded Fund (ETF) on spot bitcoin, which would be an industry first. While bitcoin ETFs do exist, they invest in futures contracts to replicate bitcoin's performance.



How BlackRock's Spot Bitcoin ETF works?

As a reminder, an ETF is an exchange-traded fund designed to replicate the performance of an index, sector, commodity or other asset. Functioning in the same way as ordinary shares, ETFs can be bought or sold on an exchange. In the case of a Bitcoin "spot" ETF, the aim would be to mirror bitcoin's price movements, offering investors the opportunity to gain exposure to the digital asset through the ETF without holding and trading bitcoin directly via an exchange or "wallet".

BlackRock has chosen Coinbase Custody as its custodian. Coinbase's expertise in protecting digital assets, combined with its established reputation in the cryptocurrency sector, should enhance the product's security and inspire investor confidence.

BlackRock has also entered a "surveillance-sharing agreement" with Nasdaq to ensure the accuracy of the ETF's pricing. This agreement enables the exchanges to share information on trading, clearing and customer identification activities, thereby minimizing the risk of market manipulation.

All that remains is for Blackrock to obtain approval from the SEC.

How could the approval of this ETF change the game?

BlackRock's strategic decision to embark on the development of a Bitcoin ETF, despite numerous regulatory hurdles, validates to a certain extent the legitimacy of cryptocurrencies and their underlying technology, blockchain. It is reasonable to hypothesize that Blackrock is thus making a bet on the growing demand for digital assets on the part of investors.

Through this project, Blackrock is demonstrating its commitment to the ongoing digital revolution. Approval of Blackrock's application could have several positive consequences for the cryptocurrency market:

1. Increased accessibility

The approval of a "spot" bitcoin ETF would offer individuals and institutions simplified, regulated access to this asset. It would eliminate the complications and risks associated with buying and storing cryptocurrencies, making it more accessible to a wider range of investors. While many have so far been reluctant to allocate part of their capital to bitcoin, Blackrock's ETF could encourage them to "take the plunge".

2. Mitigated risks

Investing in a Bitcoin ETF instead of holding cryptocurrencies directly can potentially help mitigate risk for investors. Blackrock/iShares' risk management combined with Coinbase's depository services and oversight sharing agreement with Nasdaq should help protect investors from hacking, theft, and failures due to operational errors.

3. Enhanced liquidity

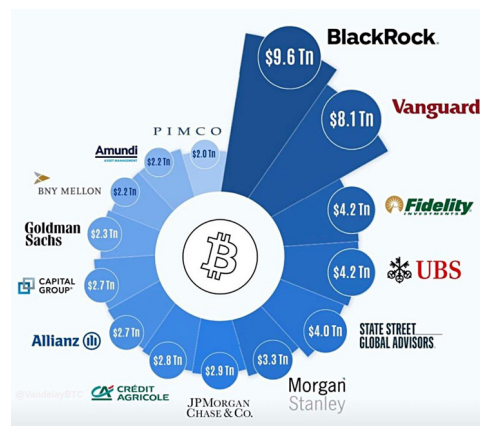
A SEC-approved Bitcoin spot ETF would likely offer greater liquidity compared to existing cryptocurrency investment options. The ability to buy and sell the ETF on regulated exchanges, combined with BlackRock's reputation and scale, could attract large trading volumes. Increased accessibility should contribute to a greater influx of capital into the cryptocurrency market. A greater volume of activity should also help to narrow the bid-ask spread.

4. A favorable effect on the price of bitcoin and cryptocurrencies?

The SEC's approval of a BlackRock Bitcoin ETF could have a significant impact on the price of cryptocurrencies, particularly bitcoin. In fact, since Blackrock's announcement, Bitcoin has soared above the \$31,000 mark, whereas it had tested the \$25,000 mark a few days before the announcement. The entry of a major institutional player like BlackRock could mitigate perceived volatility and attract new investors to the cryptocurrency market.

5. A snowball effect on the rest of the asset management industry

BlackRock's entry into crypto assets could unlock new possibilities and encourage other players to follow suit, thereby "institutionalizing" this new asset class. Indeed, since the announcement, Invesco and Valkyrie have also filed for a Bitcoin spot ETF with the SEC, while WisdomTree has just reactivated a previous application. Other industry giants (Vanguard, Fidelity, etc.) could also follow suit.



Source: andelayBTC

Hurdles on the road to approval

Although it has previously approved ETFs invested in bitcoin futures, the U.S. SEC has to date been very cautious about approving a Bitcoin spot ETF, mainly due to concerns about market manipulation risks, inherent volatility, and the regulatory complexities of cryptocurrencies. The SEC also cited the lack of oversight and regulatory control over cryptocurrency markets as significant obstacles to the approval of these ETFs.

For all these reasons, the SEC denied all applications filed, including the 1st of them at the initiative of the co-founders of Gemini, the Winklevoss twins, in 2013.

Still on the subject of a Bitcoin spot ETF, the SEC is engaged in a legal battle with Grayscale over the conversion of the Grayscale Bitcoin Trust into an ETF. Grayscale, a reference in the crypto field, is seeking approval to convert its Grayscale Bitcoin Investment Trust (GBTC) into an ETF. The GBTC has been the instrument favored by many investors - including Cathie Wood, founder of Ark Invest - for traditional access to Bitcoin. Its market capitalization is currently \$12 billion but had exceeded \$40 billion at its peak. A conversion of the Trust into an ETF could create a very significant airlift into bitcoin and cryptocurrencies.

Another obstacle to the approval of Blackrock's bitcoin ETF is the SEC's battle against exchange platforms, including... Coinbase. After accusing the CEO of Binance (Changpeng Zhao) of controlling customer assets and misappropriating them at will, the SEC then turned its attention to Coinbase and imposed a regulatory audit. Indeed, the SEC accuses Coinbase of operating as an unregistered securities exchange, broker and clearing agency. These allegations raise concerns about compliance and regulatory oversight within the cryptocurrency exchange space. An element that will naturally weigh heavily in the approval process for Blackrock's ETF.

In the past, Blackrock has succeeded in obtaining approval for almost all applications filed with the SEC.

A look at the archives shows that of the 576 applications Blackrock filed with the SEC for approval of a new ETF, only one refusal was recorded. The event took place in 2014 and concerned a non-transparent ETF structure, a controversial approach at the time due to its non-compliance with daily asset disclosure.

For many experts, Blackrock's exceptional track-record of SEC approval of its products militates in favor of a favorable outcome to the launch of the "spot" bitcoin ETF. Blackrock

is almost certainly extremely well-prepared to defend this case effectively. In this process, Nasdaq should play a key role in ensuring transparent and fair pricing of the ETF's underlying bitcoin assets. This is indicated in the prospectus disclosure, which states that Nasdaq will enter a "surveillance-sharing agreement" with a bitcoin cash trading platform operator. This is a strong rebuttal to the SEC's argument against approving the Bitcoin ETF because of potential irregularities in its price.

Conclusion

BlackRock's launch of a Bitcoin spot ETF could be a major development in the history of crypto assets. Such an ETF would increase accessibility to bitcoin, mitigate certain risks, improve liquidity and lead to significant repercussions for the cryptocurrency market and other financial institutions. Although the application is far from being approved, BlackRock's expertise and the strategic partnerships that have been put in place could help secure SEC approval.

On average, it takes 240 days for the SEC to approve or reject an ETF application. BlackRock filed its application on June 15. Given the complexity of the case, a decision could therefore be handed down in around 12 months. A date which could coincide with bitcoin's next halving...

For further information

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