

The case for and against cryptocurrency ETFs in Singapore

What are ETFs?

Exchange Traded Funds (“ETFs”) are listed funds that track an underlying basket of assets that typically share a similar investment profile[1], which can be a stock index, commodity, bonds, or any basket of assets[2]. As the name suggests, they are exchange-traded, which means that investors can purchase a share in the ETF in the same way that regular listed company shares are purchased. ETFs allow investors to diversify their portfolios without needing to buy individual stocks or building a portfolio similar to the benchmark index. They also enjoy lower fees as they are not typically actively managed[3].

Crypto ETFs

Cryptocurrency ETFs, or crypto ETFs, are ETFs that have (a) cryptocurrency(ies), often Bitcoin, as the underlying asset[4]. As Bitcoin is the most established cryptocurrency today, most of the developments regarding crypto ETFs have focused on Bitcoin ETFs, and this article will focus on these. A Bitcoin ETF has been viewed as a natural next step in the maturation of Bitcoin as an asset, and has been hailed by JP Morgan CEO Jamie Dimon as a “holy grail”.

Advantages of a Bitcoin ETF

As a Bitcoin ETF would closely track the price of the underlying Bitcoin, this would allow investors to invest in a regulated investment vehicle that is freely tradeable on regular exchanges without needing to buy and securely store the underlying cryptocurrency (in this case Bitcoin), which often comes with security risks, poor liquidity[5] and low transaction

speeds. Proponents contend that this will provide institutional investors with easier access to the cryptocurrency market,[6] which will bring much-needed capital to the cryptocurrency markets, and allow the creation of new, innovative cryptocurrency products.

Risks of Bitcoin ETFs

The US Securities and Exchange Commission (“SEC”) Chairman Jay Clayton has voiced his concerns over the “potential for manipulation”, as well as risks to “investor protection”, that Bitcoin ETFs carry. Cryptocurrencies in general and Bitcoin, in particular, are known for their susceptibility to manipulation[7], with multiple studies[8] showing that the meteoric rise of Bitcoin prices was due in part to market manipulation.

Regulatory status of Crypto ETFs in the US

In August 2018, 9 Bitcoin ETF applications to the SEC were rejected[9]. As of the date of writing of this article, no Bitcoin ETFs have been approved by the SEC. In support of their position, the SEC has cited concerns that the Bitcoin market was still too manipulatable, immature[10], volatile and resistant to surveillance[11].

Current Singapore position

While the SEC continues to deliberate on Bitcoin ETFs, some jurisdictions[12] have taken a “wait-and-see” approach to crypto ETFs. Singapore appears to be taking this approach, as there are currently no listed crypto ETFs on either the mainboard or Catalist board of the Singapore Exchange[13].

The way forward?

Given the SEC's apparent position on Bitcoin ETFs and the moribund approvals process in the US, there may be an opportunity for the Monetary Authority of Singapore ("MAS") to take the opportunity to be amongst the first jurisdictions to approve crypto ETFs (Canada has already approved the first Bitcoin ETF [14]). Of course, sufficient regulatory safeguards must be put in place to ensure that the risks of market manipulation are mitigated and that investors are adequately protected. A possible first step would be to allow only selected cryptocurrencies with a proven track record to be used at the underlying asset for crypto ETFs and to put in place "circuit breakers" to stop trades when the underlying cryptocurrencies are experiencing high volatility.

Conclusion

The US SEC's dithering over approval of crypto ETFs have generated a pent-up market demand. Therein lies a possible opportunity for jurisdictions like Singapore to seize the opportunity to be amongst the first to market.

[1] <https://www.dbs.com.sg/personal/articles/saving-investing/beginners-guide-to-etfs-part1>

[2] <https://www.investopedia.com/terms/e/etf.asp>

[3] supra

[4] <https://www.bitcoinmarketjournal.com/bitcoin-etf/>

[5] Supra

[6] <https://www.ccn.com/sec-chases-billions-out-of-us-economy-by-dragging-feet-on-bitcoin-etf>

[7] <https://www.ccn.com/bitcoin-price-manipulated-by-cryptocurrency-trading-bots-wsj>

[8] <https://www.cnbc.com/2018/06/13/much-of-bitcoins-2017-boom-was-market-manipulation-researcher-says.html>

[9] <https://cointelegraph.com/news/sec-rejects-9-bitcoin-etf-applications-from-proshares-direxion-and-graniteshares>

[10] <https://www.ccn.com/arcane-sec-rules-may-kill-chances-of-bitcoin-etf-in-2019-crypto-mom>

[11] <https://cointelegraph.com/news/a-brief-history-of-the-secs-reviews-of-bitcoin-etf-proposals>

[12] <https://ethereumworldnews.com/us-sec-rulings-bitcoin-etfs-determine-south-koreas-crypto-attitude/>

[13] <https://www2.sgx.com/>

[14] <https://cointelegraph.com/news/crypto-canada-from-etfs-to-icos-visiting-the-country-of-wolverine-and-vitalik>

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For further information on the above, please contact our Cryptocurrency Law and Practice Team.