Ethereum ETFs are here, building case for US approval of BTC and ETH funds

While Bitcoin may evolve to become gold 2.0, Ether-based funds could offer investors exposure to a new utility technology.

Unlike its neighbor to the south that continues to procrastinate, Canada seems to be fast-tracking crypto assets — as evident again last week in its regulatory green light for three new Ether (ETH)-based exchange-traded funds, North America’s first.
approve a cryptocurrency-based ETF soon, perhaps within months, said Harvey.

“It is increasingly hard to make the case to exclude crypto,” he further explained, adding: “Consider an institutional investor that wants a well-diversified portfolio. Of course, that portfolio would include names like Apple with $2 trillion in market capitalization. But what about crypto?”

On April 17, Purpose Investments, Evolve ETFs and CI Global Asset Management were all approved by Canadian regulators to launch Ether ETFs. That event, while viewed positively by most, still raises a few questions.

How, if at all, does an Ether ETF really differ from a Bitcoin (BTC) ETF? Would it have the same target market or the same success in assets under management as the Purpose Bitcoin ETF, for example, which has attracted 1.23 billion Canadian dollars ($983 million) since its February debut? For that matter, how significant are crypto-based ETFs as a class — are they just a halfway house on the path to widespread cryptocurrency adoption, likely to be superseded eventually by decentralized finance offerings?

Chris Kuiper, vice president of CFRA — an analytics and research company — told Cointelegraph that said both retail and institutional investors prefer to make crypto investments “in a market cap weighted manner,” so as not to try to pick winners and losers. So, an ETF for Ether, the second-largest cryptocurrency, is a plus and “would allow them to start creating this portfolio.”

But BTC and ETH could also be veering off in different directions, Kuiper added, and eventually, Ether might attract its own unique constituency. After all, “Many [investors] are starting to view Bitcoin as the monetary base layer or a gold 2.0 and even an alternative to corporate treasury reserve assets,” noted Kuiper, further explaining that for those who view Bitcoin as the “ultimate store” of value, they “want the code unchanged and for transactions to remain slow.” He added:

“Ethereum advocates, however, are looking at Ethereum’s ability for programmable contracts — i.e., smart tokens — and for all kinds of applications to be built on top of Ethereum. [...] This is a very different viewpoint and these investors may have no interest in Bitcoin, but may have a lot of interest in Ethereum exposure as a kind of new platform.”
Som Seif, CEO of Purpose Investments, also appeared to see potentially broader uses for an Ether ETF, such as a way to invest in a technology platform. He recently commented: “We’re democratizing access to Ether, making the process of owning Ether easier than ever. We believe Ether [...] is poised to continue its growth trajectory and as both an important utility technology and broader adoption as an investment asset.”

Jeff Dorman, chief investment officer of investment management firm Arca, told Cointelegraph that the majority of investors today still don’t understand — nor are they often even aware of — Ethereum and how it differs from Bitcoin. That said, the market audience for BTC and ETH exchange-traded funds are basically the same, in his view — i.e., “those who are more restricted in their ability to buy digital assets directly.” This includes financial advisors and funds with equity mandates.

**Will the Ether ETF fare as well as its BTC cousin?**

As noted, the Purpose Bitcoin ETF has been a huge success by most accounts. Will an Ether ETF attract anywhere near the same attention?

Kuiper expects Purpose Investments’ Ether ETF “to be successful as well in terms of garnering assets, but I would not expect it to gain the same amount of assets as their Bitcoin ETF.” Bitcoin remains crypto’s flagship currency, and even if its dominance has diminished recently, it still accounts for about 50% of the total market capitalization. Ether, in second place, trails far behind, with only 12% to 13% of the market share. One might expect roughly the same proportions to hold with its respective ETFs, said Kuiper, adding:

“If you look at something like the Grayscale trust in the U.S., its AUM for Bitcoin is over $40 billion, while ETH is a little under $8 billion — or about a fifth. So I would expect the Purpose Ethereum ETF AUM will likely level out at a quarter to a fifth of their sister Bitcoin ETF, but that should still be considered a success.”

Scott Freeman, co-founder and partner of JST Capital, told Cointelegraph: “We would not be surprised if the ETH ETFs also do well, but we expect this to be in proportion to the existing ratio of their market caps.” As for the attractions of both ETF types, Freeman said:

“There are many investors who wish to have exposure to BTC and other crypto assets but want to do it through their current broker or money manager. They’d prefer not to..."
use a crypto broker, in other words, and that is where crypto-based exchange traded funds can help.”

Dorman told Cointelegraph that he too expects Ether ETFs to perform well, though mainly “because the equity world is starved for digital asset exposure, and this will be yet another pure play way to get exposure without breaking from traditional bank and brokerage workflows.”

**Will pressure on the SEC follow?**

Will the SEC soon feel compelled to answer Canada with similar approvals of its own? “The SEC doesn’t have to do anything in regards to Canada,” Kuiper told Cointelegraph, “but I think they may feel some pressure to remain competitive and start to approve or at least offer more details and guidance on a Bitcoin ETF — they now have at least applications from eight different ETF companies.”

Kathleen Moriarty, senior counsel at Chapman and Cutler LLP, told Cointelegraph: “The SEC will certainly note that Canada has listed Bitcoin and Ethereum ETFs. Given that we have relationships with Canada in the securities area, this will resonate more with the SEC than it would if a country with a new securities market listed these ETFs.” That being said, Moriarty added:

“The SEC is not privy to the facts, issues and decision making processes of the Canadian regulators and views itself as the premier global securities regulator. Therefore, it will not want to be seen to ‘rubber stamp’ a new product based on the example of another regulator.”

Harvey told Cointelegraph: “In the past, the SEC has resisted ETFs mainly because they feared manipulation of some of the price feeds from exchanges of dubious quality. I think we have enough fully regulated, liquid exchanges in the U.S. to mitigate those concerns.” This combined with a new agency chairman, Gary Gensler, who “understands the space, means that it is likely a matter of a few months before we have U.S. based crypto ETFs.”

But Gensler, who once taught a course on blockchain at MIT, might have other priorities. “Gensler is going to be very busy dealing with ESG [environmental, social and corporate governance], SPACs [special purpose acquisition companies] and market structure issues. Solving existing problems may be higher on his to do list than birthing a new complex product
that could pose problems down the line,” said Moriarty, who worked with Cameron and Tyler Winklevoss on the first SEC filing for a Bitcoin ETF in 2013 — which was rejected by the agency in 2017.

Another view shared with Cointelegraph by an expert who wished to remain anonymous is that the SEC is welcoming the Canadian listings, as now it can see “in real life” how these crypto funds actually perform, whether they cause problems, and to what extent the “customer experience” is positive.

“In my experience, the U.S. regulatory bodies have never been influenced by Canada,” Dorman told Cointelegraph. “ETFs are still years away in the U.S., because most of the issues raised by the SEC in their previous rejections have not been solved.”

**Another sign that crypto has arrived?**

From a global perspective, though, can’t Canada’s recent Ether ETF approvals be viewed as yet another indication that cryptocurrencies are moving into the financial mainstream?

It further validates “that cryptocurrencies are here to stay,” said Kuiper, as “the market and infrastructure continues to expand.” And Harvey told Cointelegraph: “Crypto is mainstream now. The IPO of Coinbase was the watershed. We will see more and more ETFs based on other coins.”

But Harvey was more nuanced with regard to the long-term impact of ETFs: “A big reason that institutional investors have steered clear of crypto until now is the custody issue,” he said, adding: “They had no mechanism to store private keys. They did not want to bear the custodial risk. The ETFs solve these problems.” Looking further down the road, however, decentralized finance could put these funds out of business. As Harvey noted:

> “Why pay the fees of an ETF when you easily hold the ‘physical’? The only problem that needs to be solved is the custody issue — and the solution to that appears to be coming.”

Dorman agreed that the main benefit of these funds is the access they provide to investors who don’t have the ability to buy and custody BTC and ETH directly. For them, “It is a worthwhile service as long as the fees are low,” but he added this caveat:

> “Essentially these products are catering to traditional investor workflows rather than the
opposite — which is to help investors understand and utilize the new workflows for owning and custodyng digital assets. Eventually, most of these funds will be obsolete, but they are a necessary bridge for now.”
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