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**Marty:** [00:00:00] Yeah. So inflation's the topic at de Jore in the uk. Yeah, it is for us,

**Townsend:** yeah. At least on the desk. And how bad is it? Do you notice it? Yeah, definitely. You notice restaurant appetizers have doubled, you know, mains have gone up, you know, 30, 40%. Um, so bills are pretty dramatic. Uh, my food bill is definitely gone up 50%.

You know, um, you get sicker shock more than ever. Like, I mean, obviously you're anchored to old prices, but you, you look at things and think, wow, that is a lot more than I expected. And it's also shrink inflation. There's a lot, shrink inflation's been going on a lot where you buy something and it's 30 grams lighter than what it used to be.

You know, one bread roll, a chicken sliced short, same price. So, um, it's been going on for a long time. Yeah,

**Marty:** I'm a bit ignorant. What's the, uh, The wealth gap, like in the uk is it [00:01:00] comparable to the us? Are people really feeling it there, or,

**Townsend:** um, yeah, I mean there's, it's probably comparable. I think there's probably more of a net social network, but still, I mean, it's, it's pretty, I mean, I'd say they're more wealthy in the US than there are in the UK as well, so, um, but across the board I think it's, it's pretty impactful.

Yeah.

**Marty:** Yeah, it's interesting times, like I was just saying before we hit record. Yeah, we're gonna have that wimar style ping ponging between deflation and inflation. Yeah,

**Townsend:** yeah, definitely. But, you know, muddle through and see what the bank of, I, I don't know what the Bank of England can actually achieve, so we'll have to wait and see.

**Marty:** Yeah, it seems like Roshi really stuck his neck out this week and say, if I haven't solved this problem in six months, I've failed. So you really couldn't target on your back there. Yeah,

**Townsend:** I mean, I, I, I don't know if anyone can solve it until, I guess you could depress demand so much that. You know, but until you solve the structural inefficiencies that were [00:02:00] created by Brexit and the pandemic, what can you do?

I mean, there's just, there's not enough labor and we can't import things that we use efficiently anymore. We import 50% of food from abroad, mostly from Europe, and that's, you know, dramatically far more inefficient than it used to be, you know, three years ago. So

**Marty:** yeah, interesting times, great time to be alive.

Interesting time to be in Bitcoin. Exactly. Uh, haven't introduced the freaky yet. I'm sitting down with Towson Lansing from Coin Shares to talk Bitcoin, ETFs Trust, whatever BlackRock is launching. Um, but as you may be able to tell, he's got an American accent living in the uk. Yeah, you've been over there for, in Europe for quite some time, haven't you?

**Townsend:** About 21 years in the uk and then four or five years in Germany and Italy before that. So, Proper expat at this point.

**Marty:** Yeah. Yeah. It's, uh, do [00:03:00] you like the expat life?

**Townsend:** Uh, I mean, I've grown accustomed to it. My kids are European, my wife is European. Um, so, and, and America's changed a lot since I left, so it's hard to judge.

Just sort of now it's home. This is the place I've lived the longest. You know, I grew up in Dallas 14 years, and then since then it's been New York, Europe, up and London. So pretty much that's, um, That's kind of my frame of reference now.

**Marty:** Yeah. And to add some context for the freaks, I uh, wrote a newsletter about BlackRock's filing of the Bitcoin grantor trust and Chrisman Dixon, your coworker, uh, dme.

I said, Marty, you got this all wrong. You gotta talk to my buddy Townsend about what's going on here. And so he introduced us. We had a conversation yesterday and I'm really. Excited to, to jump into this topic. Obviously it's one of the largest topics of the week, uh, last couple weeks, and a lot of people are trying to graphs what [00:04:00] exactly the structure of BlackRocks, uh, trust is and what are the chances that the s e C actually approves it.

Um, and obviously their filing has incited a number of other filings that, um, that I've, uh, I've seen the signal that BlackRock put out there and like, oh, we gotta get to market. And obviously Coin shares, you guys offer a lot of exchange traded products and, um, you've been building them not only Yeah, uh, in the crypto space, but before you were heavily involved in the, uh, ETF space.

So I think as a jumping off point, um, just let's talk about what you've been doing at Coin Shares and the products that you have and how that may compare to what BlackRock's

**Townsend:** building. Sure. I mean, it's, it's important. They're different obviously cuz the European market, the regulatory regimes and the necessitate different structures.

But, um, at Coin Shares we've been building what are known as kind of rated products. Um, On, on digital assets. The European [00:05:00] market is far more developed in the us um, in terms of both the number of issuers, the number of products we alone have, um, 15, actually 19 different products from two different issuers, um, listed on major exchanges throughout Europe, so Xtra and Germany, six in Switzerland, Euro next Amsterdam, and Paris, and also Nasdaq, Sweden.

Um, those products cover not just Bitcoin, Ethereum, but they also cover a wide variety of altcoins. We also offer to share staking rewards in products where staking is possible. We have about seven products that share staking rewards, um, with kind of an annual or daily accruing, but annual percentage around up to 5% for things like polt.

Um, it's a much more robust market in Europe for exchange rated products, mainly because the regulatory. Regime is a lot more friend friendlier and a lot more favorable. Um, we, we've seen, with the exception of the uk, you know, European regulators who approve prospectuses and also the listing authorities much more wi willing to list digital asset [00:06:00] products.

So we have a very robust infrastructure, um, in the us Obviously the quest for the SPOT ETF has been going on for I think probably what, since 2011, 2013 maybe. When the Pink Boss filed the first one. Um, Overall, the US product, the BlackRock product is, is fairly simple as it's a trust. It's a trust. Um, there are two ways to structure ETPs ETFs.

In the United States, you either use 40 ACT Fund, which is also a trust, but it falls under the 40 ACT regime. Or you use what's called a grantor trust, which doesn't fall under the 40 ACT regime. The 40 ACT regime is the regulatory regime, like the 33 Act, that that governs the rules, you know, relating to investment companies.

Um, the reason. So just as Kate's point when, when the s e C and the staff were to allow the futures backed, uh, Bitcoin product, they insisted it'd be wrapped into a 40 ACT fund that gives some extra protections. It also has a [00:07:00] wider regulatory regime than you would find in, in different structures for a spot product, it's unlikely you can use a 40 ACT fund.

Um, And if I get too jargony, please jump in. Let me and remind me to explain myself. Um, mainly because the eligible assets that are available to a 40 ACT Fund are defined by the irs and they're kind of split into good assets and bad assets. And if, if a fund, if 40 ACT fund has too many bad assets, then it loses what's called its pass through taxation.

I e there's double taxation once at the corporate level and then also the investor level, where traditionally a fund will only have a pass through taxation where. Only the investors would be taxed that the fund itself doesn't, isn't taxed on, its on its gains from dis, dis dispositions of, of what it holds.

That's really important for most investors. The grantor trust structure allows for that pass through taxation, but it has some restrictions on like what you can hold and how you do it. But in general, that's [00:08:00] the, that's the accepted structure for alternative assets, single asset. It started with gold. You, some of your, your might be familiar with G L D, which is the world's largest gold product.

Um, it was probably the first gran Tus to be sort of listed as, as an e ETF in the United States. It offers exposure to gold. There are other products now out there as well, but that is the pro like prevailing structure that BlackRock is using for, for the Bitcoin product. Yeah,

the

**Marty:** grantor trust, and does that dictate that you can only hold one commodity in the trust?

You

**Townsend:** can only hold one asset and you can't, you have no discretion over that asset. The, the, it's, I mean, getting more jargony, the grantor trust idea actually comes from inheritance tax and was a way of essentially granting an asset into a trust for inheritance purposes. And therefore the rules are a lot like, you know, you can't give.

People discretion over how to use that. It can't have, you know, it has to be a limited set of assets. The reason it is used is because if you [00:09:00] comply with the restrictions, you get that all important pass through taxation, which means that you don't have double taxation investors if they're investing in investment product hate double taxation, rightfully so.

They probably hate single taxation as well, but they definitely hate double taxation and product structures like me try to go to great lengths to avoid that as well.

**Marty:** Yeah. Yeah. Cause we have the fees, the performance. Yeah. The management, the performance. It's like, okay,

**Townsend:** you, yeah. I mean, yeah. And so, you know, I think, um, well, really what would happen is if you, if you had a, didn't have, didn't have plaster taxation, every time there was a redemption, the trust would pay a tax on that redemption, right.

Realizing gains. And then also when an investor sold, they would also end up paying that again. So, um, in many ways, It's a, it's a better structure. It's a common structure. I mean, BlackRock has not gone to the forefront of, of innovation at all in this structure. It's, it's really off the shelf. It's what we use in what is used in the US for all the precious [00:10:00] metals.

Um, so platinum, palladium, gold, silver. It's the exact same structure and it makes sense that. iShares and the others are using this. You know, even the Vle boss twins who used a very well known attorney, um, Kathleen Moriarty unfortunately passed away, uh, earlier this year, but she was sort of, kind of the, the godmother of, of these types of structures with G L D.

So she was a, you know, a real, and so what they're doing is not to the innovative in that sense. Um, what's, what's innovative is the question of whether the s e C will prove it or not. Yeah.

**Marty:** That's the big question because we've had. In the last few weeks alone, we've had the s e c file complaints with Coinbase and finance, or finance Binance.

About their exchanges, what they're offering, uh, Binance, how they're may be wash trading and ling funds. And with Coinbase, uh, the unregistered securities, they may or may not be offering their their clients. So that's been the big question, is [00:11:00] you had this enforcement action happen against those two exchanges a couple of weeks ago and then quickly after BlackRock came out with this filing.

Uh, and interestingly enough, we'll be using and leveraging Coinbase for their custody. And that has a bunch of people wondering like, was this enforcement against Coinbase and Binance? Sort of a clearing of the path so that these institutions could come in and say, all right, it seems like there's some clarity we can, we can offer these products now.

**Townsend:** Mean, it's very speculative. It's possible. I, I have been the last decade, um, and remain somewhat skeptical that a spot ETF will be approved from strictly analyzing what the s e C has said to every single issuer. Um, that has applied going way back even to the first application by the Vle loss twins. Um, All, and it's refined over time.

But the message has been very, very simple in my opinion, and this is something that, you know, people who know Bitcoin can answer better, but the s e c has said, [00:12:00] you have to be able to show to us that a meaningful, if not substantial amount of volume is trade for Bitcoin is traded on an exchange that has what's called a surveillance sharing agreement with the exchange on which the ETF will be listed.

And that essentially means that, you know, The exchange where most of the Bitcoins traded agrees with NASDAQ or n y s, the securities exchange, that they will share information on possible market manipulation. The problem has been to date, and, and again, I'm, you know, I'm not necessarily the right person to comment on the extent where the volume is at.

The vast bulk of Bitcoin volume sits on exchanges that are generally offshore. Um, the cme, which is the one regulated exchange that probably have a surveillance sharing agreement is still a very small part of, of, of that volume. And I think the s e c are gonna have questions just to give a bit of context.

This, these, these [00:13:00] questions did come up with gold. Um, In the conversations way back when, when the first gold product was listed, the s e c did raise them, probably not in the same detail they're raising now, which is something you, you see Commissioner Pierce point out every once in a while. Um, it also came up when we launched the first Palladium Platinum products.

I, I was involved in building those, um, a in kind of 2010. The s c took a lot of comfort. One from the fact that. The futures exchanges were super important in the trading. And two, that the TC market, the spot market, was run predominantly by regulated financial institutions, mostly banks who were involved in pricing gold, platinum, playdium, silver.

They used to be called a fixing unfortunate word choice. But, um, I think the s e is looking for similar market infrastructure or structure here, and I question whether we've arrived at that point. Um, That's one man's speculation, but I, I don't see how, unless [00:14:00] iShares or the others can really point to that volume shift, that the s e C is going to approve the product.

**Marty:** What type of volume are they looking for? Because Binance obviously the largest exchange in the world. Coinbase is number two. Well see, but

**Townsend:** not even, so one of the final recently also, Pretended to have a surveillance share agreement with Coin Shares, but with Coinbase, but they didn't. Right. And the s E C pointed that out.

I was like, it's not the same thing. Um, they wanna see, I would say off the cuff, I starting point at 50%, 50% being on CME or some other proper exchange. Right. I don't think we're anywhere near there. I could be wrong about that number, but it's definitely not gonna be 10%, for example. Right. They're gonna, the SEC's fundamental concern and.

Lisa, they've expressed from, from the multitude of rejections they've issued has been, we can't have a situation where someone can manipulate the price of Bitcoin, say on offshore exchange X, and that manipulates the price of the ETF [00:15:00] on the nasdaq. The s e c is not responsible for the price of Bitcoin offshore exchange X, and they admit that like, but they are responsible for the price of the E T F on the nasdaq, and if that's manipulable, they will not list it.

Hmm. And they're waiting to see a market dynamic that gives them more comfort. Now, whether BlackRock, I mean, BlackRock is a big ship, right? It is a massive leader in the industry and it, the s e c do have history of working with those larger institutions to kind of launch innovative products. Um, It might be that they think they have an in, or it might also be that BlackRock feel that it's a timely moment for a, for both a reputational and also positioning perspective to at least put themselves in the mix in case, um, in case the s e c does loosen things.

But I don't see it as a significant game changer in the SEC's analysis of whether or not they're willing to list it. [00:16:00] Yeah.

**Marty:** Cause that's when you. Bring up like price manipulation. That's another headline that's been, yeah. In the news this week is the, uh, the true u s d minting of a billion dollars worth of that.

Yeah, yeah. Wash

**Townsend:** Trading ledge. Wash trading. Excuse me. On Binance, the concerns that FTX have, I mean, those are the things that are going to indeed make the s e c more conservative when they're looking at what they're gonna want proper, regulated exchanges to have a meaningful amount of volume.

**Marty:** Yeah. Yeah.

And that's. Big question because again, BlackRock's what, 575 for 576 of getting these types of products approved.

**Townsend:** Yeah, and I think, you know, look, if anyone can do it, they can, but I mean, clearly the, there's the other issue in that I think a lot of people in your community are aware of is the so-called Administrative Procedures act, which essentially the APA essentially sort of the.

The rules under which the s e C is meant, or any, any [00:17:00] authority is meant to kind of regulate. Right. And the big claim, the big fear that all the regulators have is that they're kind of deemed arbitrary and capricious by a court, and then they end up getting sued and so on. It would be hard for the s e C to justify at this point without esta, without satisfying their previous request for a meaningful portion of volume on a reregulate exchange.

That act, if they were to kind of approve one product over another without satisfying those milestones, they pretty much have laid out in rejection after rejection. I mean, literally it's the very first rejection was a bit waffly. I. The second was clear, and then the third one was like cut, cut and paste until they refined that argument.

So they were insulating themselves from any, in my opinion, just kind of speaking as an ex securities lawyer, I don't practice anymore, but they'd have experience. When I practiced for the staff, what I saw is an attempt to insulate themselves from any complaint under the, the Administrative Procedures Act.

**Marty:** Yeah. Yeah. It's, uh, [00:18:00] I've been apprehensive too. I've obviously the whole. Bitcoin communities, a lot of you, not the whole, a lot of the community's getting very excited for this ETF's coming. It's gonna pump our bags. It's gonna be massive bullish tailwinds for the asset. And I'm just having PTs d going back to the Winklevoss first, applying for it.

I mean, I'm like, uh, I'm, I'm never, I've learned to never hold my breath for the utf, essentially. Yeah.

**Townsend:** I think it's not all bad news. I agree with you. Totally. It's not all bad news. I think BlackRock's filing is sort of another milestone in terms of institutional adoption support. Clearly black, sorry, BlackRock, excuse me.

BlackRock's Institutional adoption. You know, iShares like it is a big mover in a space that has been more or less dominated by startups and more intimate companies. Um, BlackRock's, obviously it's a vote of confidence for Bitcoin, and I think there's benefits from that. It definitely gets, you know, on our [00:19:00] side when we talk to institutional investors, admittedly mostly European ones, they're taking notice and they're wondering, not so much on.

Will that spot be that, that Bitcoin ETF be approved as like the, the, the, the seminal moment, but so much like, oh, this actually shows that one of the laurel's largest asset managers, you know, owner of trillions of dollars of a u m largest, you know, ETF issuer is taking this asset class more seriously, which is, is not an insignificant milestone in my opinion.

Even if it doesn't get approved in the next 12 months, it's still an important milestone, I think for the. You know, post ftx, I'll be honest with you here, and I know probably, um, people in the US who to work with traditional financial, you know, traditional tra fi and, and institutional investors, what I'll call kind of, you know, real money In that sense.

There was a lot of depression because FTX set us back quite a lot with a lot of people. Um, in the sense that, you know, we, we were having a lot of institutional [00:20:00] discussions and that dried up and I see what we're seeing now is a slow uptick. And, and this BlackRock, um, news is another sort of, for me, smaller, less meaningful milestone than an actual etf, but still an important one and something that investors are paying attention to because when I share with Lock Rock speaks, people, listen, go back to that old Dean Weber dating myself.

Yeah. People,

**Marty:** uh, People really like, uh, signals from, uh, institutions of that caliber, if you will,

**Townsend:** as an ETF provider. When we talk to clients, we're like, look, you know, iShares interested. There's legs here, there's real, this is a real asset. You need to figure out how this fits your portfolio and that that'll be a benefit.

It won't be as significant as the actual e etf, but it's still a benefit. Yeah,

**Marty:** yeah. Going back to the ftx, while it was incredibly painful for the industry and. In my view, it was very obvious that he drop out. You just turn his

**Townsend:** No, I'm here. I just need to turn, turn my low [00:21:00] battery. Apologies. Sorry. Sorry.

It's all

**Marty:** good. No, it's all good. Um, the, uh, I could, I could sniff that SBF guy out from a mile away. I was calling him out like two years ago and, It obviously that company did build up a significant amount of, of risk that blew up eventually, but I do think in the long run, we'll look back as that blow up as something that was actually pretty beneficial because it helped people realize the risk inherent, uh, in this industry, particularly the counterparty risk that exists.

And then, um, uh, on top of that, it really helped drive home this demarcation between Bitcoin and quote unquote crypto and. Uh, I think you have to imagine, I imagine that BlackRock sort of had their hand forced by customers that were demanding, like, Hey, I want exposure to Bitcoin. And we,

**Townsend:** well, definitely. I mean, we've seen, you know, for years, for [00:22:00] example, and you'll know this probably year, like a lot of the institutional client, sorry, the institutional investors we speak to, they've had.

Portfolio managers who trade Bitcoin in their p in their, in their per their, their, their pa, their personal accounts, but can't quite quit the convince the institution to do the same. And we're seeing a bigger conversion of that as more and more clients as well as those portfolio managers say, look, it's time to start to.

What with the Bitcoin strategy And so that's all good news. I think it's good news. I think it's a welcome news. You know, I don't want to, I don't want to dampen the excitement cuz it is welcome news and it's something that we talk to clients about here in Europe. And I imagine a lot of people are talking to clients in the US about, and I'm talking institutional clients, not the retail side, about the fact that, you know, the adoption is continuing to pace and the BlackRock iShares is a big signal.

That's the case. Yeah.

**Marty:** And so let's run with the assumption that it does get approved. Um, I'm still skeptical, but of all the filings that have been filed, I would be lying to myself if I didn't think this one had the highest probability [00:23:00] of getting approved. And so going back to like the grantor trust and what they're will actually be offering, how does the product work from your view?

Um, sure.

**Townsend:** I mean, it's a, so it's an access tool, right? It is a wrapper for exposure to Bitcoin. The way it works is, A couple key things. It's, it's open-ended, that's an important thing. Open-ended means it can issue and redeem freely. And why that's important is because that is the mechanism that allows it to track the price of Bitcoin.

So if we compare to the grayscale product, which is closed ended, well you have an A closed-ended fund because it can't issue new shares and cancel old at will is you have so-called discounts and premiums. But an ETF tracks the price of its underlying because it's open-ended and it does it for a fairly simple arbitrage function.

If it, it has what's called authorized participants. So these are institutional traders who work with the issuer, and if there's demand in the market for a, uh, uh, for [00:24:00] more securities, that AP has a contract with the issuer where they can deliver a coin in and get the security. If the security is mispriced in any way, the AP can arbitrage that difference, right with the underlying market or vice versa.

And essentially earn a risk-free return until that arbitrage opportunity eliminates i e until the price matches the underlying. And that's an important way all ETFs exchange rated funds essentially track their underlying is that arbitrage function. So way it works is. You will ho investors will hold a unit of the trust.

That unit will be traded on Nasdaq or N Y S E. I haven't looked at the filing. I think it's nasdaq. Um, and it will trade. Let's say it's, you know, one, one Bitcoin, one security equals one Bitcoin. It will trade at the price of one Bitcoin. Um, there will be a fee that fee will decay daily. So let's say it's 1%.

So every day the fee will decay by one or 365 times 1%. The i e, the, the amount of Bitcoin it's worth. Effectively will decay. [00:25:00] Um, and other than that, it trades like an equity. It just, it, you know, you can buy and sell like an equity. It'll track the price of Bitcoin. It'll have a, it'll have both a listed price, so a daily price on the exchange.

And at the end of the day, there'll be a net asset value actually what the, what the trust itself says it's worth.

**Marty:** Mm-hmm. And will you buy, be able to buy partial shares?

**Townsend:** Uh, that will depend on your broker. Generally speaking, fractionalized shares are, are up and coming, but not as easily as a, you can buy fractionalized Bitcoin.

Okay?

**Marty:** So if you're buying into this trust, if they don't have fractional share shares, you'll have to buy.

**Townsend:** That's a facility that brokers may offer, right? Mm-hmm. Depending on, I mean, blocker will price it, so it's a lot less than one. Bitcoin would be, you know, probably generally you aim to launch these at 10 to $20.

So, and you can do that because you can designate how much it's worth relative to coin at the start, right? Mm-hmm. Um, but yeah, you can't, I mean, you can't, so fractionized shares are, are [00:26:00] much more prevalent in the US but it's much more of a function of the broker than the exchange. How the broker allows you to accur your ownership.

**Marty:** Okay, that makes sense. And then another interesting thing about this particular structure when you compare it to G BTC particularly, is that you'll be able to take Bitcoin in kind and there's some n nuance with who will actually be able to take delivery of Bitcoin. Yeah, from the trust. Generally

**Townsend:** speaking, it's only the aps.

I haven't looked at it. I don't think they're offering a physical redemption facility. They might. We do. We do here in Europe, we allow investors if they want to dream redeem directly. It's not as common in the us but it's possible. But generally speaking, yes, that's part of the open-ended structure is that they have a set of institutional investors who can take in kind for exchange securities and then who can, and that's the primary market that.

The market that the aps trade on, which is where that tracking function comes from.

**Marty:** Yeah. And yeah, so the aps are the authorized, uh, [00:27:00] participants who typically broker dealers, right. Yeah, they're

**Townsend:** typically broker dealers who trade on exchange and they're responsible for dealing directly with the issuer and also with the markets as like the market maker of last resort, if you will.

So when a normal investor, like one of your, one of your listeners buys in, if they trade through Schwab, that trade, if there's not enough, will eventually make its way to an AP who, if there's not enough inventory, they'll go to the issuer and say, I need new shares. And they'll give the issuer coin and get shares in return.

**Marty:** Yeah, that actually brings up a really interesting point. I actually had a discussion about this on another show yesterday is how do you cause Bitcoin's a whole new animal. There's only 21 million Bitcoin. Yeah. It's much different than any other asset that's been put into this type of fund structure.

And again, running with the hypothetical that it gets approved, it gets some demand, and you get a lot of Bitcoin in this etf. Do you see any, um, Any problems with like share [00:28:00] creation and the ability to get the underlying asset? I mean,

**Townsend:** there shouldn't be. I mean, also every ETF anywhere in the world is dependent on the liquidity of the underlying right.

So it is, it can never be fundamentally, never be more liquid than the interline itself. I mean, there are cases where you might be more liquidity, but the actual limits of liquidity are tied to the limits of the underlying, which is sort of also kind of a, it's a condition for launching an ETF on an on, on something that it has to have sufficient liquidity to allow for it.

Um, I mean, every, every E ETF suffers this problems. Like you see, you know, for example, you might see when, when the Greek stock market closed ETFs were struggling to, you know, redeem because they can't access the underline. So yes, if, if it. If it has demand that exceeds what's available, like volume, liquidity in the marketplace, then the creation, redemption, mech mechanism could break down.

Um, [00:29:00] I, based on my rudimentary understanding of volumes, the Bitcoin space, I think that's unlikely. Yeah. Right. I likely, I think you know it, but again, it's, you never know what's gonna happen in a new landscape. But right now what we're seeing, we don't have any liquidity problems, especially not in Bitcoin.

Yeah. Um, And I think you probably could take down a few hundred million of, of liquidity, maybe split over two days. Um, but you could still do it.

**Marty:** Yeah. Cause that's a big question. There's 2.3 million Bitcoin that are held on exchanges and the rest, yeah, 17 some odd are held in wallets that individuals or businesses control.

And yeah, this thing does catch on. It's like, so, and then I guess the point I'm trying to get to is like, how does the mechanism work? Do they have to get the Bitcoin first to create the share or the shares straight? Then they go, go to Bitcoin.

**Townsend:** You have to deliver Bitcoin. So yes, they'll have to go into the market.

They have to source liquidity. So, and if that means the price goes up, then [00:30:00] yes. Um, we've not seen, I mean, even some gold platinum plate and silvers as a loose analogy, a lot of examples where, um, the ETF drove dramatically distorted the market. But it definitely drives price. It definitely has traditionally in price.

Yeah. I mean,

**Marty:** yeah. After GD launch went up, what, like five x or something like that? I don't,

**Townsend:** I'm not, you know, talking out of turn to say that, you know, in the event, I mean like any access, if essentially an ETF is an access tool and if it opens up Bitcoin or number of investors institutional and otherwise who aren't trading directly on exchange now, then that will be a new source of demand, which presumably on the basic theory of economics, she would should dry price.

**Marty:** Yeah, no, that's an important. Clarification there. They have to go out and get the Bitcoin before they can issue shares for that Bitcoin?

**Townsend:** No. Same in the US and also here. We don't ever issue shares unless we have the Bitcoin delivered first.

**Marty:** Okay.

**Townsend:** In our wallet. [00:31:00] As soon as we confirm it's in the wallet, we, we issue the shares.

It's not in the wallet. We never issue

**Marty:** shares. Yeah. Cause that's the, that's the one thing I was worried about. If they're like issuing shares and they go out to market, they can't get the Bitcoin. That seems like a, yeah. Um. And so how, how do you, particularly here in the US again, if BlackRock gets approved, do you see what's the typical sort of landscape and distribution of ETF shares of particular assets?

So you think this is a winner or take most winner or take all. Generally

**Townsend:** it's first to market wins that, as you see with B I T O, right? I mean, you know, they launched the futures. They taken 99% of the A U m, I think a couple others came after them, got nothing. So it is true that the first, I think the first E ETF provider in the US to launch will be the winner.

**Marty:** Yeah. That's the, uh, I mean

**Townsend:** you get, then you get a, you get subsequent people who launch. It's very hard to differentiate in the space. So what do you compete on? Price. Yeah. Which is good for the. [00:32:00] Right. I mean, but you know, you saw it with gold. GD launched at 40 basis points. A few came in and now I think gold in the US trades as cost as low as 17 and a half, maybe even lower.

I have to admit I haven't a hundred percent, but, and that would be the, yeah, that would be the expected, um, sort of process. Yeah. If, if, if people try to compete well,

**Marty:** um, BlackRock had the ability to re ate the Bitcoin within the grantor trust? No, no.

**Townsend:** I generally speaking, no, no. The trust can't do anything with the assets.

That is, yeah. Actually, I, I'm pretty a hundred percent certain. That's one of the things about the grant trust is once you give the asset to the trust, there's no discretion or control over that asset is essentially for the pass through taxation. You've given that asset and the trust has to just hold it.

Okay. It can't do anything, so you. Policy from a product development perspective, we would not permit that either as a product developer, whether in Europe or in the

**Marty:** us. Yeah. Cuz that's one of the big worries out there is if [00:33:00] BlackRock and masses, uh, large, some of Bitcoin in this trust and then they're going out and doing like block fi trying to get yield on

**Townsend:** it.

Yeah. When I was in the gold space, people used to accuse us, us and also local counsel. I sh you know, um, State street of Reating Gold and, but it didn't happen. I mean, the gold sat there and the vault still does, or you know, it, it, it, it's not, generally speaking, something that ETF issuers are interested in.

Um, especially in these types of assets. The gold it, it just sits there. Yeah.

**Marty:** Cause that is, as we've seen throughout time, ftx, block fi Celsius is extremely risky. Um,

**Townsend:** yeah. Yeah, I mean, look, you know, um, there's an element of trust. I don't, it's not trustless, it's intermediation and, but yeah.

**Marty:** Yeah. We discussed this yesterday when, um, we had our call.

That's the other thing too, like Bitcoin has these native properties and [00:34:00] you're, you've sort of come up building these, these exchange traded products, whether they be ETFs or ETPs, and, um, In the analog world, gold, precious metals, and really just physical assets that sit in a vault. Yeah, you can't really do anything.

Bitcoin is completely different animal in terms of it being programmable and particularly from a security perspective, like being able to custody it and unique ways, uh, via multisig, multi-institution multisig, like how do you see the, like traditional finance space? Uh, embracing these properties of Bitcoin to, to deliver better products.

Obviously BlackRock is going with, uh, Coinbase for, for custody. That is, I'm sure their security is fine. Their, their wallets are fine, but they are one wall entity of many that could be involved in a multi-state quorum. [00:35:00] Like do you, do you see the products evolving to a point where they leverage these properties?

**Townsend:** It's difficult, I think, um, to see a product leveraging really at the same level you can in the direct crypto space. Mainly because the, the, there's obviously a need for a certain amount of liquidity and functionality with the creation redemption process, right? And, um, there's a need for an independent custodian as well, third party.

What we generally look for now, at least in this stage of the evolution is, is we try to diligence to the best of our ability, um, Just the security protocols and the way it works. And we need to marry that with the need to actually have an ability, you know, classic thing is like we can't hide our key in a vault and switch, right?

Because I need to constantly take coin in and transfer coin out. Like I can't, and I can't have someone trek up to the vault type as an example. Right? And I don't know the full extent of the, the, the properties you're talking about, but generally speaking, we're looking for an institutional [00:36:00] quality custodian who offers the highest level of security protocols.

So, Fits within the, the liquidity needs that we have, the creation redemption process, which can quite, you know, we can get a creation, we can get multiple creations or redemptions or both in a day. Right. And you're, you know, and, and gives us kind of the level of security that we can then assure our investors functions.

Um, is that, as, is that as probably as. Innovative or as cutting edge, or even as secure as some of the, the, the newer developments in, in, in, in Bitcoin? Probably not. I think we're not, you know, we're looking for a, a stable name that we can work with and that we know, um, we can reduce our, our, our operational errors and have a lot of.

Um, scalability. Yeah. I'm not saying that the solutions you're talking about don't allow for that, but I think we tend to be a bit more conservative about that. Um, and I'll speak for my own sense is that when I diligence custodians, I was basing sort of on the way the gold custodians worked and then educating myself and the companies [00:37:00] educating me about, you know, how and the best of breed security protocols and trying to marry those two.

**Marty:** Yeah. Going back to like the, uh, creation and redemption process. Like obviously Bitcoin is going through its monetization phase and a large portion of the people that hold this asset, hold it for the long term. Do you see like these types of products acting differently than like traditional exchange traded products in the sense that people actually don't redeem them as much or do you think.

**Townsend:** No, I think the investors, I mean, I think people tend to be counter cyclical. They, you know, um, they buy when the market's falling, they sell when the market's high. Um, in our own experience, we have one of the first, um, digital crypto Bitcoin products out of Sweden. Um, you know, and it's made a lot of people very wealthy, um, you know, relative to other, and, you know, we've seen them selling as, as, as you know, the prices topped, especially, you know, when it's 65 people take [00:38:00] profits.

Um, I don't think they're. I'm not, I'm not gonna make too much speculation about the crypto community, but you know, the huddle idea, which is as much of kind of a belief in the community as the future of Bitcoin, I think is probably less prevalent than the types of investors that we, we attract. They have, they tend to have three to five year investment strategies.

They'll figure out where Bitcoin fits in that portfolio. They'll have targets for sale, you know, um, they'll have a wide variety of tax harvesting issues as well and so on. And they'll look to act, they will not be fervent believers. Um, in the same way, you know, um, nor would they be li thinking that, you know, bitcoin's the, the last vestige of protection against, you know, the end times for fiat.

If I, if I don't wanna mischaracterize that, the pessimistic view of the community, but, you know, it's, is it not

**Marty:** pessimist? It's optimist. So we got the lifeboat,

**Townsend:** but you know, they're, they're, they're much more. Attuned [00:39:00] to gains and losses and to their portfolio strategies. Then, then I'd say the traditional Bitcoin investor.

Yeah. Who's hod for years.

**Marty:** Yeah. That's why I like talking to you because he's bring a very, um, agnostic view to this. You're just building products. Yeah. I mean,

**Townsend:** I, I freely admit that. I think it's amazing what. What's happened? I, you know, I can see the arguments, but I really am, I'm more about building financial products on underlines that people have demand for.

And if I can do it like Bitcoin, if there's liquidity and there's robustness and I can do it in a way that provides people access, but is, you know, is, is is honest and honorable, then I'm definitely happy to build product. Yeah.

**Marty:** So what do you put the probability of this getting approved? 10.

**Townsend:** 10%. 10%. That low.

I'm, I'm very skeptical. I am, I just don't see, unless someone comes to, and I'm gonna have to monitor the filing and see what kind of reports they file. Unless someone, someone comes and shows me that, [00:40:00] um, that the conditions are satisfied, or unless there is an unknown political drive behind it, which I guess maybe I'm, you know, mispricing that I see it as 10%.

**Marty:** Yeah, I think the latter might be the case. I think, uh,

**Townsend:** yeah, I could, you know, I, I could be completely mispricing that, so maybe the rational brain in me is like looking at the facts and I should be looking at the

**Marty:** Townsend. I don't know if you know this, people call me Marty Jones. Cause I put my tinfoil hat on every once in a while and, uh

**Townsend:** Fair enough.

We'll see. We'll, yeah, we'll see.

**Marty:** Tinfoil hat is on right now, it seems. Uh, yeah, it's almost too perfect the, the series of events. You have the file. Yeah.

**Townsend:** It could be right. It could be a,

**Marty:** yeah. Jerome Powell this week, crypto has staying power. Um, it does seem like there's no clearing of the way to roll off the red carpet for, for BlackRock.

Yeah.

**Townsend:** Um, we could be back here and be like, damn, I was wrong. And could be very Right. [00:41:00] I mean, either way a winner. Right. I think, you know, either way, if it gets, it doesn't my prediction's correct. And if it does, then institutional adoption is another major milestone, which is really good for us.

**Marty:** Yeah. Yeah.

The, uh, I know you're agnostic towards it, but, um, do you see Bitcoin changing the way, like finite? I mean, we touched on a bit earlier with like Multisig, stuff like that, but like, I mean, I

**Townsend:** think some of the technology will automatically, you know, I was, you know, I think, I would think that at some point you're gonna need to shift to real world use, right.

And, and Bitcoin will find its way and I think obviously, There's real world. I mean like non, you know, technocentric use. But, um, I think finance is already looking to, to learn the lessons of, you know, Just heard ledge technology and, and, and Bitcoin and obviously it's driving even more the, the question of fiat currency.

I mean, you've seen that come up more than it ever did, even when gold was at it height. I think [00:42:00] bitcoin's made people question current inflationary environment. You know, what is the role of ever printing fiat and how can we adjust against it? So, um, I'm hopeful. I'm hopeful that, you know, eventually there'll be, um, uses that.

Expand beyond the kind of just the crypto community.

**Marty:** Yeah. Yeah. Fiat wasn't like a really well known term until I would say like the last five or six years. No

**Townsend:** gold bug. No, definitely not. I mean, I didn't learn it until I was working in the gold, but I had a lot of people who, the gold bugs are as fervent about gold as the crypto community, how Bitcoin and fiat end of the world.

And you're kinda like, now here I am again. Right. I mean it's uh,

**Marty:** it's, we love our gold bugs. They have, yeah. They have a manual Bitcoin, they just need to realize that Bitcoin's gold with wings. Definitely. Yeah. Um, well I appreciate you coming on and breaking this down for us cuz obviously it's the big news this week.

Do you think there's anything we didn't touch on that we should [00:43:00] probably mention about the product

**Townsend:** structure? About structure? So if there are any follow up questions, I'm happy to. You write some stuff down, apologies. Forgot jargony. But no, I think it's great. I look, I really appreciate the opportunity. I think what, you know, obviously the audience you build and what you're doing is really, really fascinating.

So well done on that. Um, and, and thanks for letting me speak. Uh, it's been, it's been really interesting.

**Marty:** Yeah. I, we have, uh, we have an agnostic financial product builder on the show, and I think it's good. We, you have to check, you have to check your priors every once in a while. Yeah. I'm obviously all in socially, professionally, financially.

Um, sometimes we need some, I mean, some pragmatic thinkers, uh, that are just looking at this

**Townsend:** cut and down or you're winning. I mean, I think, you know, I also heard of Bitcoin very early, but I was very cautious and sort of that caution has just developed an agnostic approach. But, um, so far Bitcoin has resisted every single agnostic doubter.[00:44:00]

You know, agnostic or doubting Thomas out there. So I mean, that's, that's got real legs and I think, you know, every day it survives and continues is another day that doubters are proven wrong. Yeah. I don't

**Marty:** know how you can be agnostic working with Chris. He's one of the, uh,

**Townsend:** we have a lot of really interesting chats.

We have a lot of really discussions and, you know, what do you, what do

**Marty:** you disagree with

**Townsend:** him on most? Oh, I mean, well, I mean I think like I tend to as other agnostic, offer them sort of inter I am and a remain kind of a believer in intermediation. I don't think disintermediation for is a good in and of itself.

I think obviously there are a lot of flaws in the way intermediaries, intermediaries work, but I still think they provide, um, some value. I tend to be more, much more of an institutionalist and then Chris and I converge on. Some libertarian beliefs around like the over overreach of, of regulation, um, as well.

So we sort of debate around like our intermediary is good, but we [00:45:00] also sort of agree that regulation, the administrative state has grown to a point where it's pretty uncontrollable.

**Marty:** Yeah, yeah. As is evidence here in the United States is a pretty big shit

**Townsend:** show. I mean, nowhere else can you get arrested for importing the wrong type of fish, even though you didn't know it.

Right. Or go onto government land and I mean, yeah, there's no doubt. Um,

**Marty:** yeah, it's one of the, the Marty Jones lines is, are we actually free? Um,

**Townsend:** yeah. Chris and I debate that a lot as well.

**Marty:** Well, I know, uh, it's late afternoon on a Friday. I don't wanna hold you up on your Friday afternoon before you go. Great.

And buy a very expensive dinner because inflation's going crazy. Yeah,

**Townsend:** unbelievable. Like Argentina, apparently they're all out. Yeah. Listen Marty, thanks so much for having me. Real pleasure to speak to you. And maybe if I make it back to Texas, we can catch up in person. Yeah, you gotta get

**Marty:** your ass back to Texas.

There's a lot going on down. You gotta come to the Bitcoin commons. We'll have, uh, some of the hardcores, um, [00:46:00] push you, push you away from any intermediaries. Everybody working here is like trying to eliminate all the intermediaries. I know. I know. All right, Townsend, it's been a pleasure. Thank you for the work you're doing.

Thank you for educating us. Um, great. Enjoy your weekend. You too.

**Townsend:** Thanks very much.

**Marty:** All right. Peace and love freaks.