

Investor Alert

Massachusetts Securities Division

The Office of the Secretary of the Commonwealth, William Francis Galvin



The Massachusetts Securities Division is issuing this alert to provide investors with additional information and questions to ask when considering investing in “spot bitcoin exchange-traded products.” On January 10, 2024, the United States Securities and Exchange Commission (“SEC”) approved investments known as “spot bitcoin exchange-traded products” (“spot bitcoin ETPs”) — sometimes referred to as “bitcoin ETFs.”

Investors should exercise caution before investing in certain ETPs and do their homework when evaluating whether spot bitcoin ETPs are appropriate for an investor’s portfolio.

What is a Spot Bitcoin ETP?

In general, an ETP is an investment that is listed on an exchange and can be bought and sold throughout the trading day.

- Like stocks that trade on an exchange, the price of the ETP fluctuates during the trading day. ETPs include exchange-traded funds (“ETFs”), which are investment vehicles that track an index, a commodity, or a basket of assets such as an index fund.
- While similar to mutual funds in some ways, ETFs differ in part because, unlike mutual funds that trade once a day at the market close, ETFs can be bought and sold throughout a trading day.

A spot bitcoin ETP is an investment vehicle that tracks the price of bitcoin and holds bitcoin, in whole or in part, as its underlying asset. Bitcoin is a cryptocurrency. Bitcoin is issued and transferred from one address to another and the transactions are recorded on the bitcoin blockchain (a type of electronic database).

What does the SEC’s decision mean for investors?

The SEC’s decision to allow the listing and trading of certain spot bitcoin ETPs means that retail investors will be able to buy and sell the products. Importantly, the SEC did **not** endorse or approve bitcoin and reminded investors to remain cautious about risks associated with bitcoin and crypto-related products.

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What are some risk factors of spot bitcoin ETPs?

All investments come with varying degrees of risk. Before investing in spot bitcoin ETPs, investors should consider the risks, which include, but are not limited to, the following:

- **Novelty** – These spot bitcoin ETPs are the first of their kind and are untested in the marketplace.
- **Volatility** - Bitcoin - the underlying asset tied to spot bitcoin ETPs - is a digital asset that has been subject to radical price movements in short periods of time. Extreme price fluctuations could lead to significant financial losses for investors.
- **Concentration** – Spot bitcoin ETPs are concentrated in bitcoin, unlike other investment vehicles including other ETPs and ETFs that may spread out risk by exposing an investor to multiple assets or indices.

What are some questions to ask before investing in spot bitcoin ETPs?

- **Do I understand how this product works?** As part of the SEC's approval to list and trade certain spot bitcoin ETPs on U.S. exchanges, the sponsors of these products will be required to provide full, fair, and truthful disclosures about the products. Be sure to carefully read all disclosure documents to fully understand the investment.
- **Am I prepared to lose the amount invested?** Investing in spot bitcoin ETPs is speculative due to the underlying volatility of bitcoin prices and you should not invest more than you can afford to lose.
- **Am I buying a spot bitcoin ETP or a bitcoin futures fund?** Spot bitcoin ETPs are directly tied to bitcoin, by holding the cryptocurrency. A bitcoin futures ETF does not hold bitcoin directly but instead attempts to replicate the price of bitcoin through the use of financial instruments known as futures contracts.
- **How much am I paying for the spot bitcoin ETP?** Fees differ for spot bitcoin ETPs and may be waived or lowered initially to incentivize investors to buy a particular product. Be sure to research how much the product costs.
- **Who is selling this product?** Broker-dealers and investment advisers are subject to fiduciary standards of conduct when making investment recommendations to Massachusetts residents. You can check the registration status of anyone selling spot bitcoin ETPs or other investments by calling the Securities Division at (617) 727-3548.

For more information, including Securities Division enforcement actions related to digital assets, please visit Secretary Galvin's website at: www.sec.state.ma.us.



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