

Article Information

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A digital currency fund's 3 year journey to list on the Toronto Stock Exchange

Last week a closed-end Bitcoin fund operated by Canadian firm 3iQ listed almost 1.5 million Class A Units known as “The Bitcoin Fund” on the Toronto Stock Exchange (TSX) under the code TSE: QBTC.U.

[3iQ fund's](#) initial value is US\$14M and their journey is an instructive example of how a regulator responds to a request to list a fund involving illiquid assets such as digital assets, as well as grappling with issues such as custody and security of digital assets reliant on public private key technology.

The Fund comprises a number of units, with Class A Units being those listed on the TSX ([TSE: QBTC.U](#)), but Class F Units were made available for “fee based” or “institutional accounts” and a further class of units, Class B Units, existed as a means of merging an earlier Bitcoin Trust operated by 3iQ into The Bitcoin Fund. All Class B and Class F Units were reclassified into Class A Units upon Closing and listing of The Bitcoin Fund on the TSX.

A long regulatory road

3iQ has been reportedly in discussions with the powerful Ontario Securities Commission (**OSC**) (one of 13 provincial level securities regulators in Canada, which all sit under the umbrella of the [Canadian Securities Administrators](#), broadly analogous to Australia's ASIC / the USA's Securities and Exchanges Commission (SEC)) for the past 3 years, including having a prospectus [rejected in February 2019 as “not in the public interest of Canadians”](#).

Reasons given for the initial rejection also included that the sub-custodian had not yet proven SOC1 or SOC2 security compliance (later obtained by Gemini), and that the fund *“has not taken sufficient steps to protect its investors against the potential loss of bitcoin”*, and that the fund had too much exposure to illiquid assets (namely bitcoin),

Following a hearing and review of that decision, the OSC Commissioner Lawrence Haber's [decision](#) opened by noting it:

is not about the merits of bitcoin as an investment

and that

it is not the role of securities regulators to approve or disapprove of the merits of securities being offered to the public

The Commissioner noted that liquidity and possible manipulation of the price of bitcoin was not a problem unique to digital currencies, identifying that the OSC's evidence focused on crypto-asset price manipulation generally rather than specifically addressing bitcoin.

Ultimately, the Commissioner found the concerns raised in the rejection *“do not warrant denying [approval] for The Bitcoin Fund's prospectus”* and the final [prospectus](#) lodged in October 2019.

Aims of the fund and custody

The stated aims of the fund are:

to seek to provide holders...with exposure to digital currency bitcoin... and... the opportunity for long-term capital appreciation.

The fund has purchased bitcoin from “*reputable bitcoin trading platforms...and OTC counterparties*” and is using [Cidel Trust Company](#) (of Calgary, Alberta) as Custodian with [Gemini](#) appointed as sub-custodian.

Custody is handled at a cold storage wallet level as follows:

- hardware security modules (“HSMs”) are used to generate, store and manage cold storage private keys;
- multisignature technology is used to provide both security against attacks and tolerance for losing access to a key or facility, eliminating single points of failure;
- all HSMs are stored in guarded, monitored and access-controlled facilities that are geographically distributed;
- hardware is sourced from diverse manufacturers to guard against supply-chain risks; and
- all fund transfers require the coordinated actions of multiple employees.

Custody for hot wallets is hosted with Amazon Web Services via:

- tiered access-controls to Gemini’s production environment to restrict access to employees based on role, following the principle of least-privilege;
- administrative access to its production environment requires multi-factor authentication;
- HSMs are used to manage hot wallet keys;
- using a hosted CloudHSM service provided by AWS, which offers dedicated HSMs within the AWS cloud; and
- additional account level protections such as crypto address whitelisting, allowing customers to restrict withdrawals to addresses only included in the customer’s whitelist.

Gemini is required to hold commercial crime insurance in excess of the amount of any digital currency held in the hot wallet environment, which is at highest risk of theft, but does not not insure the cold storage bitcoin.

The Bitcoin Fund will use on launch a Bitcoin price derived from the [MVIS CryptoCompare Institutional Bitcoin Index](#) (which uses prices from Binance, Coinbase, Kraken, Bitstamp, bitFlyer, Gemini and itBit) to determine the net asset value of the fund each day.

Fees and costs

The management fee for the fund is 1.95% and the prospectus estimates the costs of the offering to be over USD\$1,000,000 (but the manager is paying all expenses incurred in excess of 1.5% of the amount raised, which was USD\$14,000,000) plus annual costs of at least USD\$355,000.

What’s next?

The journey that The Bitcoin Fund has taken has been lengthy, and time will tell if it is worth the cost which the manager has had to absorb given the amount raised for the fund, plus the legal costs of pursuing the appeal through the OSC. What is clear is that other funds now have a path to follow, and in countries with similar securities frameworks, we might see a greater willingness to permit a similar fund to become listed as well.