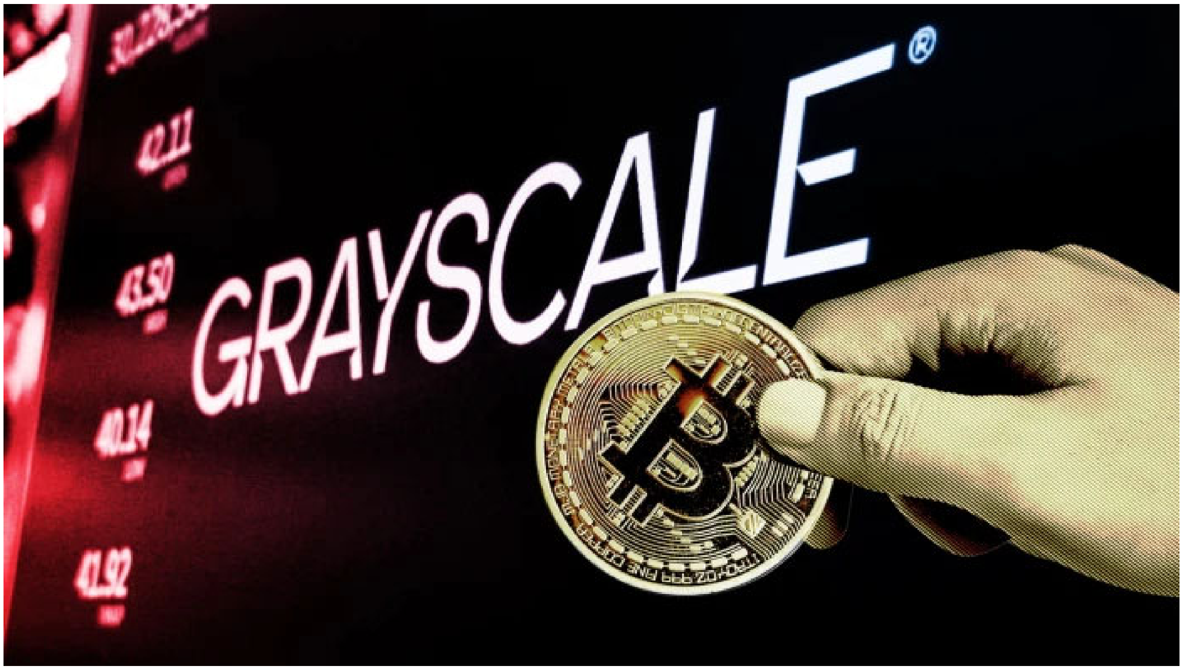
Cryptofinance **Bitcoin**

Bitcoin ETF rush spells uncertain future for Grayscale

Plus, updates on Tether and the stablecoin market



Grasycale converted its bitcoin trust into an ETF last week. © FT montage/Bloomberg

Scott Chipolina in London 2 HOURS AGO

Hello and welcome to the latest edition of the FT's Cryptofinance newsletter. Today we're taking a look at what comes next for Grayscale's new bitcoin ETF.

If you've been following my ETF coverage this week you'll know the collective launch of the US's newly approved league of bitcoin exchange traded funds has been broadly underwhelming.

According to data from CoinShares, net flows into the 11 funds totalled less than $900mn in the first three days of trading, although that figure ticked above $1bn by close of business on Thursday.

Questions linger for this new world. For a start, bitcoin's price has fallen 9.2 per cent since the ETFs got the green light from the Securities and Exchange Commission — hardly the boost some had hoped for.

Still, it is early days. Right now, one of the biggest topics is the future of the Grayscale bitcoin ETF. Unlike the others, Grayscale has been running a bitcoin trust for several years: a closed end fund where investors could not retrieve their coins, but only sell shares in the trust over-the-counter, and often at a large discount to the price of bitcoin.

It built up more than $28bn in assets under management (AuM) before Grayscale was allowed to convert the trust to an ETF, alongside the launch of 10 new competitors. The company scored a landmark legal victory over the SEC in August, which paved the way for the regulator's eventual reversal of a decade-long policy of rejecting spot bitcoin ETFs.

According to data from crypto investment group CoinShares, $2.2bn has flowed out of Grayscale's fund since it started trading last week as of close of business on Thursday.

To be fair, the scale of Grayscale's holdings can lose plenty of assets before it feels competitors snapping at its heels. Still, I asked Michael Sonnenshein, Grayscale's chief executive, what those outflows mean for his new fund. He was unfazed, choosing instead to emphasise Grayscale's longstanding record in a market where BlackRock, Fidelity, Ark, Bitwise and the rest are newcomers.

"[For many investors] it not only resonates that they're invested in a fund that is large, liquid and has a track record, but that it is also being provided to them by a company that is a specialist…a lot of these other asset managers are really getting to crypto for the first time," he said, adding "to be clear, they're coming to market to compete with us".

He played up Grayscale's role in forging a path for bitcoin investment that others had now followed, adding that eventually he expects a "rising tide will lift all boats".

Yet no matter how brave a face Sonnenshein puts on, the fact remains Grayscale's new ETF has haemorrhaged well over $2bn in assets in just one week of trading. In contrast, BlackRock — the largest asset manager in the world — has pulled in $1.2bn since launch.

Bidding to change its investment trust to an ETF was always a risky game for Grayscale, given the rush of new competition would be likely to spark a price war.

"We always knew that pushing for an ETF could damage [Grayscale's] business strategy," said CoinShares' head of research James Butterfill. "Ultimately, they've been sitting on a closed end fund and charging expensive fees. Moving to an ETF liberalises the market."

Grayscale is sticking with its fee plan for now, even though it lowered its annual management charge to a 1.5 per cent fee, from 2 per cent, in the run-up to launch.

BlackRock, for example, charges just 0.12 per cent for the present, although that will rise to 0.25 per cent in the next year or if it attracts $5bn in AuM.

"There is no current discussion about [further reducing fees]," Sonnenshein added. "We made a commitment to investors to lower fees and we honoured that commitment."

He will be hoping that commitment — alongside Grayscale's much-trumpeted record — will be enough to persuade the rest of his investors to hang around for longer.

Some analysts are less optimistic.

"Competition on fees is causing investors to exit Grayscale and shift to alternative ETF products," said Ram Ahluwalia, chief executive at investment adviser Lumida Wealth Management.

But if the first week of trading is anything to go by, my analysis last September is proving to be right so far: Grayscale opened the door to Wall Street with its SEC victory, and now bigger names are marching in and eating Sonnenshein's dinner.

"They started off as this 800lb gorilla, but now they're facing stiff competition," said Jim Angel, professor at Georgetown University.

"I think they're playing a wait and see game but it's a difficult position to be in, if they keep fees too high their assets will fly out the door."

What's your take on Grayscale's future in the ETF sector? As always, email me at scott.chipolina@ft.com.