Bit by bit: Cryptocurrency exchanges benefit from bitcoin’s rise

By Tommy Wu

The race to establish the first Bitcoin exchange-traded fund heats up as the hype surrounding cryptocurrency continues to grow.

The establishment of the first Bitcoin exchange-traded fund is expected to be a significant milestone for cryptocurrencies and could mark the start of wider adoption of cryptocurrencies among the general public. The popularity and adoption of cryptocurrencies have surged following Bitcoin’s price spike in December 2017, when it rose to $26,000. The growing popularity of cryptocurrency has prompted financial institutions to try and tap into the retail market. However, buying the underlying cryptocurrency continues to be a complex process for many individuals and households, and prices continue to be volatile. The price of Bitcoin plunged to below $8,000 after December 2017, which has deterred many people from investing in cryptocurrencies.

In Sweden, Bitcoin Tracker One has been trading on the Nordic Nasdaq since 2015. It is the first exchange-traded note linked to Bitcoin. An exchange-traded note is structured and issued like unsecured debt, while an exchange-traded fund offers a stake in the underlying asset or commodity. Establishing an exchange-traded fund provides retail investors with a more conventional security in which to invest, without directly holding the underlying cryptocurrency or commodity. In the United States, several applications for starting up a cryptocurrency-linked exchange-traded fund have been denied by the Securities and Exchange Commission over the past year and a half. This includes the first ever Bitcoin exchange-traded fund application by the Winklevoss twins in March 2017. However, earlier this month, the Securities and Exchange Commission delayed its decision on the reviews of nine previously rejected applications for Bitcoin exchange-traded funds. This has fuelled rumours that one of the funds could be soon approved.

Several cryptocurrency funds have already been established for local investors, such as CoinJar Digital Currency Fund. However, many of these funds are still only available to more sophisticated investors that hold over $2.5 million in net assets or have an annual income of $250,000 and...
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above. In the case of CoinJar Digital Currency Fund, the initial investment required is $50,000, which is out of reach for many retail investors. Every Capital is planning to launch Australia’s first retail fund for cryptocurrency, making it more accessible to the general public. Mainstream adoption not only helps bump up the price of Bitcoin and other cryptocurrencies, but also provides a significant boost to trading volumes. This presents significant opportunities for local cryptocurrency exchanges, which have increased their revenue by a phenomenal 213.6% over the five years through 2018-19, to $60.7 million. It also provides a new asset class in which both retail and institutional investors can invest. Consequently, revenue for financial asset investors has grown by 2.4% over the five years through 2018-19, to $13.2 billion. Cryptocurrency is still in its infancy relative to many other assets, but its future looks positive for all market participants.

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