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CASE STUDIES

"Case Studies" presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

THE RISE OF TOKENIZED CRYPTO ETFs (a.k.a. TOKENIZED SECURITIZED TOKENS)

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Lotus can move up to allow the text columns to move up

Following SEC approval of spot Bitcoin exchanged-traded funds (ETFs) in January 2024,[1] Satoshi Trust Co., managed by co-founders Jane and John,[2] launched Fund II—a spot Bitcoin ETF called Trust BETF. To be attractive in this growing space, where large trusted institutions like BlackRock were also issuing their own spot Bitcoin ETFs,[3] Satoshi Trust deployed Trust BETF with $250 million AUM and an expense ratio of 0.20%.

Jane and John also continued to manage Fund I—a closed-end spot Bitcoin Trust—but at a significantly lower expense ratio of 1.00% (i.e., half of the original 2.00% expense ratio). Recognizing at the time that 1.00% was still very(!) steep, John had argued against further reductions based on his belief that existing Fund I investors would likely keep their investments in place to delay substantial tax obligations from realizing their capital gains. However, neither John nor Jane anticipated the extent to which the possibility of a new crypto-friendly presidency would promote such hugely bullish investor expectations of Bitcoin. In the face of potentially massive capital gains, investors' aversion to paying taxes on prior realized gains was overcome by their aversion to paying substantially higher management fees. Ultimately, Fund I suffered extensive outflows leaving only $10 million AUM (from an original $50 million).

So now Jane and John are at odds again. Despite total higher AUM across both funds, the lower expense ratios leave Jane and John with lower net

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proceeds for themselves in the end. Thus, Jane and John are pondering how to structure their next fund. On one hand, John favors revisiting the idea of a Bitcoin futures ETF, since the custody fees would be much lower than those incurred for the direct custodianship of digital assets. However, Jane points out that, lower custody fees aside, the overall costs of fund administration would be much greater for futures versus spot ETFs given the constant rebalancing of contracts. She also points out that investors of futures ETFs are subject to greater tracking error as well as less favorable tax implications, which does not bode well for fund inflows.

Jane suggests, instead, that they implement a *tokenized* spot Bitcoin ETF—i.e., issue tokens on a public blockchain where each token represents one share in the spot Bitcoin ETF. For one, Jane is encouraged by the recent SEC rule changes "to adopt generic listing standards for exchange-traded products that hold spot commodities, *including digital assets*" [italic emphasis added],[4] which paves the way to move swiftly into other digital assets. Moreover, Jane feels that the tokenization aspect may attract more fund inflows, given the nature of OG Bitcoin enthusiasts as well as the meta elegance of tokenizing a securitized token. She adds that tokenization might significantly reduce certain administrative costs further down the road if and when the blockchain ledger is accepted as the determinative record of ownership—something she feels is increasingly likely based on SEC Commissioner Hester Peirce's recent statements suggesting a more collaborative stance with regard to securities tokenization.[5]

John counters that, at least in the near term, tokenized securities incur greater administrative costs than their non-tokenized counterparts, but he cannot deny the inherent cuteness of a tokenized securitized token. He also likes the idea of tokenizing various spot ETFs on the blockchain of the native token itself—i.e., a spot ETH ETF tokenized on Ethereum and spot SOL ETF tokenized on Solana. Jane excitedly agrees and the two proceed to discuss next steps.

Questions

- What are the tradeoffs that Fund I investors face in shifting their investments into Trust BETF?
- What are some of the major distinguishing factors of a *spot* Bitcoin ETF versus a Bitcoin *futures* ETF?
  - Why might the costs of fund administration be lower in the former versus the latter?
  - What is the differing tax treatment that Jane is referring to? (i.e., what is the tax treatment of realized gains on commodities versus realized gains on commodity futures?)
- What is tokenization and what is securitization? What is a tokenized security versus a securitized token? (What, then, is a tokenized securitized token?)
- What are the pros and cons of tokenization?

Notes

1 Spot Bitcoin exchange-traded products were approved by the SEC on January 10, 2024. See "Statement on the Approval of Spot Bitcoin Exchange-Traded Products," Jan 10, 2024, Gary Gensler, U.S. Securities and Exchange Commission, accessed at https://www.sec.gov/newsroom/speeches-statements/gensler-statement-spot-bitcoin-011023.

2 For some background on Jane, John, and Satoshi Trust Co., see "Bitcoin ETFs: The Pros and Cons of a Spot ETF Versus a Futures ETF," Seoyoung Kim, *Journal of Investment Management*, 2023.

3 See, for instance, the fact sheet for BlackRock's iShares Bitcoin Trust ETF, accessed at https://www.blackrock.com/us/individual/products/333011/ishares-bitcoin-trust.

4 See "SEC Approves Generic Listing Standards for Commodity-Based Trust Shares," Sept 17, 2025, U.S. Securities and Exchange Commission, accessed at https://www.sec.gov/newsroom/press-releases/2025-

121-sec-approves-generic-listing-standards-commodity-based-trust-shares.

[5] See "US SEC commissioner says regulator willing to work with those who want to tokenise," Sept 30, 2025, Reuters, accessed at https://www.reuters.com/technology/us-sec-commissioner-says-regulator-willing- work-with-those-who-want- tokenise-2025-09-30/

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