

MEMO# 31038

January 19, 2018

SEC Letter to ICI on Fund Innovation and Cryptocurrency-Related Holdings

[31038]

January 19, 2018 TO: ICI Members

Investment Company Directors SUBJECTS: Alternative Investments

Anti-Money Laundering

Compliance

Derivatives

Disclosure

Exchange-Traded Funds (ETFs)

Fund Accounting & Financial Reporting

Risk Oversight

Valuation RE: SEC Letter to ICI on Fund Innovation and Cryptocurrency-Related Holdings

The Director of the SEC's Division of Investment Management, Dalia Blass, sent the ICI a letter yesterday identifying potential legal and investor protection issues regarding cryptocurrencies and registered funds.[\[1\]](#) The letter notes that the SEC staff has seen interest among sponsors in offering registered funds that would hold cryptocurrencies and cryptocurrency-related products. It also states that the Division stands ready to engage in dialogue with sponsors regarding the potential development of these funds, but that there are a number of significant investor protection issues that need to be examined before sponsors begin offering these funds to retail investors. To facilitate the start of that dialogue, the letter identifies multiple questions on each of the following topics:

- Valuation;
- Liquidity;
- Custody;
- Arbitrage (for ETFs); and
- Potential Manipulation and Other Risks.

The letter further notes that until the questions identified can be addressed satisfactorily, the staff does not believe that it is appropriate for fund sponsors to initiate registration of funds that intend to invest substantially in cryptocurrency and related products. According to the letter, the staff has asked sponsors that have filed registration statements for such products to withdraw them.

In addition, the letter notes that the staff does not believe that such funds should utilize rule 485(a) under the Securities Act, which allows post-effective amendments to previously

effective registration statements for registration of a new series to go effective automatically. Further, if a sponsor were to file a post-effective amendment under rule 485(a) to register a fund that invests substantially in cryptocurrency or related products, the staff would view that action unfavorably and would consider recommending a stop order to the Commission.

Dorothy M. Donohue
Deputy General Counsel - Securities Regulation

endnotes

[1] See Letter from Dalia Blass, Director, Division of Investment Management, Securities and Exchange Commission, to Paul Schott Stevens, President & CEO, Investment Company Institute, dated January 18, 2018, *available* at <https://www.sec.gov/divisions/investment/noaction/2018/cryptocurrency-011818.htm>.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.