Charltons Quantum – Quantum Updates 47 – May 2025

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**US SEC Extends Deadline on Bitwise 10 Crypto Index Fund: Compliance Stakes for Framework for Commodity- and Digital Asset-Based Investment Interests till 31 July 2025**

On 28 May 2025, the United States Securities and Exchange Commission (**US SEC**) published a [Notice of Designation of Longer Period](https://www.sec.gov/files/rules/sro/nysearca/2025/34-103140.pdf) for further action on proceedings to determine whether to approve or disapprove a proposed rule change to list and trade shares of the bitwise 10 crypto index fund under proposed nyse arca rule 8.800-e (commodity- and/or digital asset-based investment interests) and announced that it has extended the review period for a proposed rule change by NYSE Arca, Inc. to list and trade shares of the Bitwise 10 Crypto Index Fund. The final decision has now been deferred to 31 July 2025. Now US SEC has more time to evaluate the legal, regulatory, and market impact of this landmark crypto-index ETF.

The proposal filed by NYSE Arca on 14 November 2024 seeks approval to list a crypto-based investment product under the newly proposed NYSE Arca Rule 8.800-E, which provides a framework for commodity- and digital asset-based investment interests. The Bitwise 10 Crypto Index Fund aims to track the performance of the ten largest cryptoassets by market capitalisation, offering regulated access to a diversified crypto basket.

This application is being seen as a litmus test for how the US SEC handles multi-asset digital funds and whether the regulatory architecture is ready to support more sophisticated crypto financial products. If approved, it could open the door to a broader class of regulated crypto investment vehicles in the United States.

**Timeline of events**

* On 14 November 2024, Proposal filed by NYSE Arca with the US SEC (SR-NYSEARCA-2024-98).
* On 03 December 2024, Proposal published in the *Federal Register* for public comment (Release No. 101775).
* 14 January 2025, US SEC extends the decision period to 3 March 2025 (Release No. 102186).
* On 3 March 2025, proceedings formally initiated under Section 19(b)(2)(B) of the US Exchange Act.
* On 7 March 2025, US SEC published additional notice of proceedings (Release No. 102514).
* On 28 May 2025, final deadline extended to 31.07.2025 (Release No. 34-103140).

The proposal is being evaluated under Section 19(b)(2) of the US Securities Exchange Act of 1934 (15 U.S.C. 78s(b)(2)) and Rule 19b-4 (17 CFR 240.19b-4). It would fall within the framework of NYSE Arca’s proposed Rule 8.800-E, which is designed specifically for listing digital asset-based investment vehicles.

Approval would expand the scope of permissible exchange-traded products (**ETPs**) linked to cryptoassets. It would also influence how custodians, fund managers, and exchanges structure future crypto ETFs and comply with federal securities laws. The US SEC’s eventual ruling will signal the agency’s expectations for how digital asset ETFs must be structured, governed, and disclosed. Some of the compliance angles include:

* Custody Standards: Will the fund satisfy the SEC’s concerns around secure and compliant crypto custody arrangements?
* Market Integrity: Does the fund include sufficient market surveillance and price verification to guard against manipulation?
* Disclosure Regime: What level of transparency is required around fund methodology, asset weightings, liquidity, and risk disclosures?
* Retail vs. Institutional Access: Will investor classification impact how these products are offered and marketed?

The approval of the Bitwise 10 Crypto Index Fund would regulate novel class of diversified, regulated crypto investment products which will be accepted into the US mainstream. The proposal is the first of its kind to bundle multiple top cryptoassets into a single exchange, traded fund under an US SEC-compliant structure. Approval of Bitwise 10 crypto index fund would legitimise crypto exposure within retirement portfolios, mutual fund allocations, and institutional strategies. It would also mean regulatory confidence in the integrity of the digital asset markets.

By extending the decision deadline to 31 July 2025, the US SEC has bought itself more time. For crypto businesses and market participants, this is the moment to anticipate regulatory expectations, recalibrate internal policies, and prepare for the legal standards that could define the next wave of digital asset innovation.

*“The Commission finds it appropriate to designate a longer period within which to issue an order approving or disapproving the proposed rule change so that it has sufficient time to consider the proposed rule change and the issues raised therein.”*—US SEC.

The ongoing activities of the US SEC’s Crypto Task Force, including a series of Crypto roundtables are evolving regulatory approach toward digital assets and offer definitive clarity. Additional crypto-focused roundtables are scheduled throughout June.

(Source: <https://www.sec.gov/files/rules/sro/nysearca/2025/34-103140.pdf>)

**US SEC publishes Order Instituting Proceedings on Grayscale Ethereum Trusts’ Staking Proposal: Regulatory stance on ETF Integration of PoS Mechanics**

On 28 May 2025, the United States Securities and Exchange Commission (**US SEC**) published an [order instituting proceedings](https://www.sec.gov/files/rules/sro/nysearca/2025/34-103137.pdf) to determine whether to approve or disapprove a proposed rule change to amend the grayscale ethereum trust etf and grayscale ethereum mini trust etf to permit staking of the ether held by the trusts, which aims to amend the listing conditions for the Grayscale Ethereum Trust ETF and the Grayscale Ethereum Mini Trust ETF to allow staking of Ether held by the Trusts. The proposal aims to integrate Ethereum’s Proof-of-Stake (**PoS**) mechanism into a regulated exchange-traded product structure, which raises novel legal and policy questions under federal securities law.

The proposed rule change, filed on 14 February 2025, seeks approval to amend the rules governing the listing and trading of shares of the Trusts under NYSE Arca Rule 8.201-E, which governs commodity-based trust shares. The amendment would permit the Trusts to stake the Ether they hold in the Ethereum network. All other previously approved representations concerning the Trusts would remain unchanged. The US SEC published the proposal for public comment on 3 March 2025 and later extended the initial decision deadline before now initiating formal proceedings under Section 19(b)(2)(B) of the Securities Exchange Act of 1934. This action reflects the Commission’s intent to evaluate the regulatory implications of incorporating staking functionality within an ETF wrapper.

* On 14 February 2025, NYSE Arca filed the proposed amendment with the US SEC. (SR-NYSEARCA-2025-13)
* On 3 March 2025, proposal was published in the Federal Register (Release No. 102485, 90 FR 11081).
* On 14 April 2025, US SEC designated 1 June 2025 as the extended deadline to decide on the rule change (Release No. 102855).
* On 28 May 2025, proceedings formally instituted by the US SEC to consider approval or disapproval (Release No. 34-103137).

The US SEC has raised issues with the consistency of the proposed staking amendment with Section 6(b)(5) of the US Securities Exchange Act (15 U.S.C. 78f(b)(5)), which requires that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts, promote fair and equitable trading, remove impediments to efficient markets, and protect investors. Allowing the Trusts to engage in staking, a dynamic, validator-based protocol activity which introduces regulatory uncertainty as to whether such participation can coexist with the passive investment structure required of listed trust shares.

The proceeding sets the stage for compliance recalibration across crypto-related financial products. Fund sponsors, custodians, staking infrastructure providers, and legal advisers must be alert to key concerns raised by the US SEC, which includes the classification of staking rewards, risk disclosures related to slashing and network penalties, delegation of staking authority to third-party validators, and the broader question of whether a fund’s participation in a PoS network undermines its passive investment nature. Additionally, the income generated from staking may have tax and accounting implications, which must be addressed in offering documents and compliance systems.

The US SEC is formally evaluating whether regulated exchange-traded funds can participate in crypto staking. Approval would signal a willingness to evolve existing ETF structures in line with PoS blockchain functionality and open pathways for staking-enabled yield strategies in regulated financial products. Disapproval, however, would likely reinforce the current boundary between passive crypto exposure and active blockchain participation. The outcome will influence how staking, as a fundamental blockchain mechanism, can be integrated within the frameworks of public markets and securities regulation.

The US SEC has requested written submissions on whether the proposed rule change is consistent with Section 6(b)(5) and other provisions of the US Exchange Act. Comments must be submitted within 21 days of the publication date in the Federal Register, and rebuttals within 35 days. The US SEC has not scheduled an oral hearing but will consider requests under Rule 19b-4.

*“Pursuant to Section 19(b)(2)(B) of the* US Securities Exchange Act*the Commission is providing notice of the grounds for disapproval under consideration. As described above, the Exchange proposes to allow staking of the Trusts’ ether. The Commission is instituting proceedings to allow for additional analysis of the proposed rule change’s consistency with Section 6(b)(5) of the United States*Securities Exchange Act*.” —*US SEC.

(Source: <https://www.sec.gov/files/rules/sro/nysearca/2025/34-103137.pdf>)

**US SEC to Host Public Roundtable on DeFi Regulation and Innovation Titled: “DeFi and the American Spirit” on 9 June 2025**

On 28 May 2025, the US Securities and Exchange Commission (**US SEC**), through its Crypto Task Force, announced the full agenda and panelist list for the upcoming roundtable titled “[DeFi and the American Spirit](https://www.sec.gov/newsroom/meetings-events/defi-american-spirit),” to be held on 9 June 2025 from 1:00 p.m. to 5:00 p.m. Eastern time (**ET**) at the US SEC Headquarters, 100 F Street, N.E., Washington, D.C. The event will be open to the public and webcast live on the official website of US SEC [www.sec.gov](https://www.sec.gov/).

The roundtable is a part of the US SEC’s ongoing efforts to foster dialogue on the regulatory implications of Decentralised Finance (**DeFi**). The event will open with opening remarks by Richard B. Gabbert (Chief of Staff, US Crypto Task Force), US SEC Chairman Paul S. Atkins, and US SEC Commissioners Caroline A. Crenshaw, Mark T. Uyeda, and Hester M. Peirce.

From 1:30 p.m. to 3:00 p.m., a moderated roundtable discussion will explore DeFi’s technological landscape and regulatory considerations. The session will be moderated by Troy Paredes (Paredes Strategies LLC), featuring expert contributions from Jill Gunter (Espresso Systems), Michael Jordan (DBA), Omid Malekan (Columbia Business School), Michael Mosier (Arktouros), Rebecca Rettig (Jito Labs), Gabe Shapiro (MetaLeX), Peter Van Valkenburgh (Coin Center), Erik Voorhees (Venice AI), and Kevin Werbach (Wharton School).

A break will follow, after which a town hall session from 3:30 p.m. to 4:55 p.m. ET will enable audience members to pose questions directly to the panelists, including submissions via email to [crypto@sec.gov](mailto:crypto@sec.gov). Commissioner Peirce will provide closing remarks from 4:55 p.m. to 5:00 p.m. ET.

Online viewers may access the live via [www.sec.gov](https://www.sec.gov/) on 9 June 2025 without registration. For in-person attendance, advance registration is required.

(Source: <https://www.sec.gov/newsroom/press-releases/2025-78-sec-announces-agenda-panelists-roundtable-crypto-defi>)

**US CFTC Issues Advisory Urging Stronger Market Volatility Controls by Exchanges and Clearing Houses**

On 22 May 2025, the United States Commodity Futures Trading Commission (**US CFTC**) released a *CFTC Staff Advisory No. 25-15*, reminding Designated Contract Markets (**DCMs**) and Derivatives Clearing Organizations (**DCOs**) of their regulatory obligations under the United States Commodity Exchange Act (**CEA**) and US CFTC regulations concerning market volatility controls. The advisory, jointly issued by the Division of Market Oversight (**DMO**) and the Division of Clearing and Risk (**DCR**), provides for preserving market integrity during periods of extreme volatility.

The advisory states that DCMs must comply with Core Principle 4 of the CEA, which mandates mechanisms to prevent manipulation, price distortion, and market disruptions. Regulation 38.255 specifically requires DCMs to implement pre-trade risk controls such as trading pauses, price bands, and circuit breakers tailored to their market characteristics. The US CFTC also referred to the United States Futures Industry Association’s (**FIA**) “Best Practices for Exchange Volatility Control Mechanisms” as a guiding reference, noting that controls must strike a balance between preventing erratic price movements and preserving efficient price discovery.

DCMs are encouraged to adapt measures such as dynamic circuit breakers, price validation logic (fat finger controls), and daily price limits in a manner sensitive to trading hours, product types, and market volatility. The advisory stresses that appropriate volatility controls, informed by global best practices and market-specific risks, are instrumental in limiting systemic disruptions triggered by geopolitical or economic events.

The advisory directs DCOs to assess the impact of volatility controls on their risk management practices, particularly during timeframes such as the end-of-day settlement period. Where applicable, DCOs are reminded that under US CFTC Regulation 39.13 and internal rulebooks, they may override standard price derivation methods to adopt settlement prices that better reflect economic reality. Such discretion must be exercised transparently and communicated to clearing members and market participants to manage expectations and obligations effectively.

The advisory aligns with the US CFTC’s global regulatory strategy and incorporates recommendations from the Global Markets Advisory Committee (**GMAC**), promoting harmonisation with international standards. It also references historical precedents such as the 2008 cotton futures episode to illustrate the practical relevance of using alternative price references in volatile scenarios.

This US CFTC Advisory is a considered view of the US CFTC’s DMO and DCR, not binding on the US CFTC. Queries regarding the advisory may be directed to DMO Acting Director Rahul Varma and DCR Acting Director Richard Haynes.

(Source: <https://www.cftc.gov/PressRoom/PressReleases/9078-25>)

**US CFTC Confirms Cross-Border Regulatory Interpretations for Foreign Proprietary Trading Firm**

On 21 May 2025, the United States Commodity Futures Trading Commission (**US CFTC**), through its Market Participants Division and Division of Market Oversight, issued an interpretative letter clarifying the application of cross-border definitions under existing US CFTC regulations. This regulatory clarification was provided in response to a formal request by a proprietary trading firm organised outside the United States.

The interpretative letter affirms that, based on the specific facts submitted, the foreign proprietary trading firm is not considered a “person located in the United States” under the definition of a “foreign futures or foreign options customer” as per US CFTC regulation 30.1(c). Further, the firm is not classified as a “participant located in the United States” under US CFTC regulation 48.2(c).

US CFTC’s staff determined that the firm qualifies as a “foreign located person” pursuant to US CFTC regulation 3.10(c)(1)(ii), and is not a “U.S. person” under the meaning of Commission regulation 23.23(a) and the US CFTC’s 2013 [Interpretive Guidance and Policy Statement Regarding Compliance With Certain Swap Regulations](https://www.cftc.gov/sites/default/files/idc/groups/public/@lrfederalregister/documents/file/2013-17958a.pdf).

This interpretation is meant to provide legal certainty for the proprietary trading firm regarding its cross-border regulatory status under US CFTC oversight with regulatory clarity for international market participants engaging in US-regulated derivatives activities.

(Source: <https://www.cftc.gov/PressRoom/PressReleases/9077-25>)

**US SEC and FINRA Withdraw 2019 Joint Statement on Broker-Dealer Custody of Digital Asset Securities, Signalling Policy Shift in Crypto Oversight**

On 15 May 2025, the United States Securities and Exchange Commission (**US SEC**), through its Division of Trading and Markets, together with the Office of General Counsel of the Financial Industry Regulatory Authority, Inc. (**FINRA**), formally withdrew the [Joint Staff Statement on Broker-Dealer Custody of Digital Asset Securities](https://www.sec.gov/newsroom/speeches-statements/joint-staff-statement-broker-dealer-custody-digital-asset-securities) issued on 8 July 2019. The withdrawal is effective immediately and was published on the official US SEC website.

The original Joint Staff Statement provided guidance on how broker-dealers could comply with existing custody requirements when holding digital asset securities. Its withdrawal, possibly in favour of updated and more comprehensive guidance or forthcoming rulemaking better suited to current market conditions and technological developments.

Stakeholders like crypto custodians are directed to the US SEC’s Crypto Task Force webpage for additional guidance or to contact Associate Director Michael Macchiaroli and Assistant Director Raymond Lombardo at the Division of Trading and Markets. Parallel inquiries may be directed to FINRA’s Crypto Assets team or Associate General Counsel Tom Kimbrell.

(Source: <https://www.sec.gov/newsroom/speeches-statements/withdrawal-joint-staff-statement-broker-dealer-custody-digital-asset-securities>)

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