

Can investing via ETFs help you ride wild crypto wave?



Is it possible for you to have crypto in your portfolio without actually owning the asset? Do you feel the process of crypto is complicated? Exchange-traded funds (ETFs) that invest in Bitcoin or a basket of virtual assets, including several cryptocurrencies, might be a solution to navigate the crypto Wild West. Are these investment products available to Indians? What are the dos and don'ts? **Aseem Gujar & Partha Sinha** explore...

When the US SEC allowed the first crypto-based ETF to be listed in October 2021, Bitcoin's price had rallied to its record high of \$67,000. Though the ETF didn't invest directly in Bitcoin and instead bought its futures contracts, it was still a key event in crypto's history as it signalled regulatory and institutional acceptance in the world's largest financial market. Crypto futures are derivatives of virtual currencies similar to products on stocks, commodities, and other fiat currencies that are traded on exchanges globally.

In recent months, several types of ETFs linked to crypto have debuted globally — some invest in virtual assets directly, some stick to futures, while others focus on stocks of companies that are in blockchain & other crypto-related areas. The first US ETF had created market history as it attracted

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\$1 billion within days of its debut. But ETFs don't just bring higher inflows, they also allow for a wider investor pool. Institutions and individuals are drawn to crypto ETFs as they are regulated investment vehicles.

WHAT ARE ETFs

An exchange-traded fund (ETF) is a basket of securities that trades on a bourse just like a stock does. A Nifty ETF, for instance, tracks the prices of the 50 index stocks. Similarly, a crypto ETF tracks the value of one or more crypto assets like Bitcoin.

An ETF's main benefit is that it allows you to diversify your portfolio without owning the asset. Like mutual funds, ETF issuers too purchase the asset they track. But unlike mutual funds, not all crypto ETFs are handled by a regulated asset manager. These are also traded on exchanges but managed either by a crypto exchange or some other firm. Also, to invest in crypto

CRYPTO EXPOSURE WITHOUT ACTUALLY OWNING IT

Exchange-traded fund (ETF)

is a basket of assets that can be traded on a bourse just like stocks

Crypto ETF vs Traditional ETF

➤ Crypto ETFs are also traded on exchanges but, unlike traditional ones, they are **not handled by regulated asset management cos**

➤ Crypto exchanges or some wealth management cos handle crypto ETFs. Also, **for crypto ETFs, you don't need to have a demat account**

How Can You Invest

OPTION A: Invest in **regulated global crypto ETFs** through platforms that allow Indians to buy foreign-listed stocks and ETFs

OPTION B: Approach unregulated domestic crypto exchanges or wealth mgmt firms that offer **ETF-equivalents**. But these are just baskets of assets and can't be traded



Is It Legal? India has not directly legalised crypto but has announced tax provisions. Since crypto ETFs listed abroad are not leveraged investment instruments, **Indians are allowed to invest in them through the RBI's LRS route**

ETFs, you don't need demat account. While ETFs investing directly in crypto have been listed in Canada and some European countries, the US is yet to approve such ETFs.

CAN INDIANS INVEST IN CRYPTO ETFs?

In India, ETFs are typically offered by mutual fund companies and markets regulator Sebi has limited them to stocks and their indices, gold, and silver. According to industry players, asset management companies won't come up with crypto ETF plans until there is a law in place. Then how can Indians invest in crypto ETFs? One option is to invest in regulated global crypto ETFs through platforms that allow customers to buy foreign-listed stocks, bonds, mutual funds, and ETFs using the RBI's liberalised remittance scheme (LRS).

Krishna Mohan Meenavalli, CEO, Torus Kling Blockchain IFSC, which is in the process of launching India's first crypto ETF in GIFT City, said, "When it is listed, it will be as simple as searching for 'Bitcoin', putting in your cash and start trading." He said that ETFs, after they are launched in India, will give confidence to investors as they will

be regulated. In FY21, Indians invested \$472 million in approved foreign investment products, official data showed. ETF-specific data was not available.

Another route, industry players said, is through domestic wealth management firms that offer ETF-equivalent products. An ETF-equivalent is just a basket of crypto assets and, unlike normal ETFs, these products cannot be traded. According to Joseph Massey, MD & CEO of CryptoWire that recently launched IC15, India's first crypto index, ETFs can be advantageous for those who are not sure which crypto token to buy and in what proportion. "Index is weighted based on a token's market capitalisation and popularity. So, investors don't need to apply their mind on how much Bitcoin or Ether to buy," Massey said.

SAFETY FIRST: CHECK FOREIGN NORMS

Investors can invest in foreign ETFs but they should look at quality of regulatory standards in the jurisdiction, where such ETFs are listed, before taking a decision.

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