

## SEC's ETF Redemption Policy Mirrors Earlier Hong Kong Approach

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A recent shift by the United States Securities and Exchange Commission (SEC) regarding the redemption mechanism of Bitcoin (BTC) and Ethereum (ETH) exchange-traded funds (ETFs) has drawn attention for resembling a regulatory framework that has been in place in Hong Kong for several years. The development sheds light on the SEC's evolving stance towards cryptocurrency ETFs and brings the US closer to established international practices.

The SEC recently approved in-kind redemptions for Bitcoin and Ethereum ETFs, marking a departure from its earlier preference for cash-only redemptions. An **in-kind redemption** allows investors to receive the underlying assets, such as BTC or ETH, rather than their cash equivalent when redeeming ETF shares. This approach is generally favoured by institutional investors as it offers greater tax efficiency and reduces market impact.

Notably, Hong Kong's Securities and Futures Commission (SFC) had already adopted in-kind redemption policies when it approved the launch of crypto spot ETFs earlier this year. Industry observers point out that Hong Kong permitted both in-kind and in-cash creation and redemption models from the outset, allowing flexibility for ETF issuers and providing a model for the US to consider.

While the SEC's earlier cautious stance reflected its concerns about custody risks and market manipulation, its updated position demonstrates a broader willingness to accommodate innovations in the digital asset space. Analysts suggest that this alignment with Hong Kong's regulatory stance may promote greater competitiveness for US-based crypto investment products on the global stage.

The development is being seen as a significant milestone for institutional cryptocurrency adoption in the United States. With in-kind mechanisms now available, ETF issuers and large investors will likely experience more seamless and cost-effective transactions, bringing the US crypto market structure closer to traditional financial norms already in place in Asia.

As of now, market participants await further clarity on implementation timelines and any additional guidance from the SEC. However, the shift signals a regulatory environment that is becoming increasingly pragmatic, drawing lessons from global counterparts to refine domestic oversight.