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SEC Grants Approval for In-Kind Redemptions in Cryptocurrency ETFs

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The U.S. Securities and Exchange Commission (SEC) has approved in-kind creation and redemption mechanisms for spot Bitcoin (BTC) and Ethereum (ETH) exchange-traded products (ETPs). The move brings cryptocurrency ETFs in line with traditional commodity-based ETFs, such as those backed by gold, and is expected to enhance tax efficiency and market liquidity.

The approval allows authorized participants to directly exchange ETF shares for the underlying digital assets, rather than relying solely on cash-based transactions. This type of structure, commonly used in commodities markets, enables investors to swap ETF shares for a corresponding amount of the asset, Bitcoin or Ethereum, without requiring a market sale. In-kind redemptions are widely considered more operationally efficient, reducing taxable events and lowering the transaction costs typically associated with buying or selling cryptocurrencies on exchanges.

Market analysts say this decision could accelerate the adoption of cryptocurrency ETFs by institutional investors. Hedge funds, asset managers, and other large institutions typically favor in-kind structures because they align with their portfolio rebalancing strategies and help minimize capital gains liabilities. By embracing this operational model, the SEC is seen as moving toward greater integration of digital assets within established financial systems.

The new mechanism may also help manage liquidity more effectively. Direct asset exchanges reduce the need for ETF issuers to conduct high-volume trades in spot markets, which can lead to price slippage and volatility. This approach allows large investors to enter and exit ETF positions more smoothly, without significantly impacting asset prices.

The ruling applies to spot-based Bitcoin and Ethereum ETFs, which have gained popularity among U.S. investors since receiving regulatory approval earlier this year. Industry participants believe that the introduction of in-kind transactions will strengthen their appeal, especially among long-term holders seeking tax-efficient structures.

Internationally, some jurisdictions already permit in-kind transactions in crypto ETFs. The SEC's decision brings the U.S. regulatory landscape more in line with these global standards, signaling a shift toward broader acceptance of digital assets in mainstream finance.

While the SEC has maintained a cautious stance toward the crypto sector, this latest step suggests a growing willingness to treat digital assets similarly to traditional investment vehicles. Market participants will be closely monitoring how ETF issuers implement these changes and the impact on investor inflows moving forward