

**New York State Department of Financial Services  
Hearing on Virtual Currency**

**Testimony of  
Jeremy Allaire, Chairman and CEO,  
Circle Internet Financial, Inc.**

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Superintendent Lawksy, thank you for the opportunity to participate in today's hearing. My name is Jeremy Allaire, and I am the Founder and CEO of Circle Internet Financial, a financial services company aimed at enabling consumers and businesses to use Bitcoin and digital currency for payments and money transfers. I have been building Internet software platforms and online services for twenty years, having founded and helped to lead multiple global public companies.

Payments and money transfers are still operating in the pre-internet era. Digital currency has enormous potential as a payment method for both consumers and merchants. It offers greater ease of use, convenience, and security than existing payment networks, and at a significantly lower cost. Bitcoin, specifically, offers a powerful open platform that is global in scope and enables nearly instant, verifiable transactions at a fraction of the cost of existing electronic payment systems, while increasing security for end-users and businesses accepting payments. As programmable currency, Bitcoin also portends to enable new forms of automated financial contracts and use as a globally verifiable ledger of ownership in nearly any form of asset.

Without a doubt, there are currently many risks associated with digital currency, and many of these have been voiced by government agencies around the world, including: price volatility, lack of consumer protections and safeguards around the potential theft of digital assets, the lack of consistent safeguards against "seller fraud", and the potential for criminal use and abuse of a system that by design provides very high levels of financial privacy. We believe that through private industry and community-led innovation, as well as collaboration with law making bodies, all of these risks can be addressed and the innovation value allowed to flourish.

We appreciate the leadership role that the New York Department of Financial Services has taken regarding digital currency and the efforts of the Conference of State Banking Supervisors, and other federal and state regulators, to review the benefits and risks associated with digital currency. We are also encouraged by the guidance issued by FinCEN last March geared to ensuring that digital currency transactions are not used for money laundering and providing digital currency firms with much needed regulatory clarity on these issues. With that said, we believe more needs to be done from a regulatory perspective. The current state statutes are outdated and never contemplated technology such as Bitcoin. As a result, state regulators are finding it difficult to accept and process licensing applications for digital currency firms. We believe that there should be more guidance specifically geared toward digital currency firms and that the states should develop a streamlined approach to licensing these firms.

The growing global awareness and interest in Bitcoin is a testament to the innovation represented by this technology, and while there are clear risks, we see very strong evidence of industry and regulatory engagement needed to address these risks and allow for the disruptive potential of the technology to take hold and drive mainstream acceptance of digital currency.

Thank you again for organizing this hearing and for providing me with the chance to discuss the future of digital currency. I look forward to answering your questions and reviewing this matter in more detail.

Please find the responses below to the specific questions raised by the New York State Department of Financial Services in preparation for the hearing.

1. The feasibility of the Department issuing a “BitLicense” specific to virtual currency transactions.

**Digital currency offers unique benefits to consumers and businesses to transmit, store, send and receive digital currency, such as Bitcoin, in a secure environment at a low cost. Due to the financial nature of these transactions, it is clear that firms participating in this market should be subject to regulatory oversight. Digital currency firms, like other financial services companies, are charged with protecting and securing consumer’s assets and therefore should be subject to appropriate regulations, such as anti-money laundering and consumer protection laws.**

**We are encouraged by the guidance provided by the Financial Crimes Enforcement Network (“FinCEN”) at the federal level and believe that there are enough safeguards in place to prevent anti-money laundering under existing laws and regulations. We also believe it is appropriate for digital currency firms to be required to maintain strong Know Your Customer (“KYC”) policies, monitor transactions for suspicious activity and provide reports to regulatory bodies as necessary and as is required by FinCEN.**

**However, there is still too much regulatory uncertainty and inconsistency in relation to the oversight of digital currency firms from a state regulatory perspective. It is evident that the current statutory framework among the states is outdated and does not contemplate digital currency technology. We believe that it would be beneficial to have a special license (such as a BitLicense) that is geared to mitigating the risks specifically associated with digital currency. We also believe that the licensing process should be streamlined among the fifty states to allow legitimate businesses to enter the market. As it currently stands, the lack of regulatory clarity, and the inconsistent application of laws among the states, has created a barrier to entry for digital currency firms.**

2. What specific types of virtual currency transactions and activities should require regulation?

**We believe that recent FinCEN guidance appropriately regulates those firms facilitating digital currency transactions and not individual users or holders of digital currency. Firms that should be regulated include exchanges that convert fiat currency to digital currency and companies, such as Circle, that help consumers and businesses store, send and receive digital currency. The FinCEN regulations exclude miners of digital currency which play a critical role in the validation of digital currency transactions.**

3. Should entities that are regulated be required to follow specific anti-money laundering regulations?

**Digital currency firms should be required to follow anti-money laundering regulations and are appropriately designated a money service business for this purpose. As previously stated, we believe that firms can be adequately regulated under the current statutory framework. Recent high profile enforcement actions suggest that law enforcement can, and will, bring actions, against bad actors in this area under existing anti-money laundering laws. It is entirely appropriate for digital currency firms to be required to register with FinCEN as an MSB, establish KYC standards, monitor transactions and report suspicious activity.**

4. Should entities that are regulated be required to follow specifically tailored consumer protection guidelines?

**Digital currency firms are charged with protecting assets for individuals and businesses. It is important that digital currency firms not only put into place security and risk management protocols to protect consumer's digital currency, but also be transparent and educate consumers about the risks associated with transactions. In this regard, it would be appropriate to have specific consumer protection laws and disclosures to ensure consumers understand all of the transactions and that consumers are protected from fraudulent transactions. Likewise, unlike traditional MSBs where consumer financial assets are stored within Federal Reserve backed commercial banks, digital currency MSBs are custodians of financial assets in the form of private keys, and thus should have higher levels of protection around those assets. We are committed to working proactively with the state agencies and the Consumer Financial Protection Bureau to determine what level of regulation is needed in this area.**

5. Should entities that are regulated be required to follow specifically tailored examination requirements?

**It would be appropriate for digital currency firms to have tailored examinations and oversight. Digital currency risks and compliance issues are unique and the technology is evolving and therefore it would make sense to have specific related procedures. From a practical standpoint, this would also most likely create the need for specialized examination teams who understand the risks and the technology. We would recommend that the states combine efforts through the CSBS or other bodies to come up with a standard examination manual similar to the approach taken by the federal financial regulators through the FFIEC to ensure a consistent approach is taken and that the expectations are clear.**

6. The benefits and drawbacks of using virtual currency from a retail perspective.

**Digital currency offers tremendous potential economic benefits from a retail perspective, including making payment transactions more accessible and secure, while doing so at a lower cost. More specifically, the benefits of digital currency include the following:**

- **Materially lowering the costs associated with electronic payments, from an average of 2-3% down to close to 0%;**
- **Open up global trade, specifically e-commerce and online services, by facilitating trade and transactions across borders with low overhead;**
- **Radically lower the costs of money transfers, including and especially international remittances, which often carry 7-10% transaction fees;**
- **Reducing fraud associated with current electronic payment methods, where customers must constantly share sensitive bank account information, compared to Bitcoin whose cryptography-based architecture enables payments to happen without providing counter-parties with sensitive financial account information;**
- **Because of Bitcoin's low-cost transaction model, it can support payments for products and services priced on a micro-payment basis, including innovative metered pricing models;**
- **By leverage software and online services as well as smart mobile devices, help to improve the consumer retail experience; and**
- **Long-term, as a core set of technology and protocols, Bitcoin offers significant opportunities in establishing and enforcing contracts, including financial contracts, as well as new methods of trust in commercial exchanges.**

**Digital currency, and Bitcoin specifically, does present significant risks and threats, including the following:**

- **Criminals and terrorists will seek to employ digital currency if it remains unregulated;**
- **Tax evaders will seek to employ digital currency if the government doesn't issue and enforce clearly guidelines and rules on the role of digital currency in income and taxation;**
- **Consumers and businesses could be defrauded of their money if digital currency operators are not compelled to operate their business with the highest levels of security safeguards for the storage of digital currency and associated personal information; and**
- **Consumers and businesses could be exposed to financial loss if Bitcoin market prices fluctuate wildly, and governments and institutional investors are not able to act as market-makers in Bitcoin.**

7. Pricing, volatility and security of the virtual currency market from an investor perspective.

**Primarily, the price swings reflect the fact that Bitcoin is a nascent market with limited float and trade volume. Similar to small cap stocks on public exchanges, lack of liquidity at scale and lower trade volume will tend to yield higher levels of volatility. In its current incarnation, digital currency has been a news-driven phenomenon, which in the early stages can lead to more significant price swings.**

**While volatility is a short-term concern, we do not believe it is a long-term issue. As more legal exchanges begin to operate in key financial markets (US, UK, Germany, Japan, etc.), we expect to see trade volumes grow considerably, and exchange products to become more sophisticated in terms of features that would be attractive to institutional investors. This**

**broader institutional participation will drive greater price stability and greater liquidity for consumers and businesses using the currency. In addition, widespread adoption and use of digital currency as a payment method should create additional stability in the marketplace.**

8. The future expectations and anticipated developments of the virtual currency market from an investor and retail perspective.

**We believe that global digital currency will become a critical component to how world trade and e-commerce takes place over the next twenty years. The technology offers tremendous opportunities to build a new infrastructure as well as consumer and business-focused financial services that support this global adoption.**

**There are several short and long-term challenges for digital currency from a business, regulatory and technological perspective. In terms of regulation, we believe it is important that U.S. federal and state regulators take a leadership role and provide regulatory guidance needed for legitimate businesses to prevent these companies from going overseas. One area that needs to be addressed in the short term relates to the tax treatment of digital currency. Without certainty in this area, merchants and consumers that utilize digital currency will be discouraged from doing so. From a technology perspective, the protocols around Bitcoin are still in early stages. We expect that future versions and improvements to the open architecture will provide enhancements that will improve the efficiency and use of Bitcoin by the consumer and businesses.**