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Mr. Lawsky and Mr. Syracuse:

I am a self-employed entrepreneur living in New York. Over the past year, I have studied Bitcoin technology and am in the process of developing hardware and software that helps facilitate various forms of data transfer on top of the Bitcoin Blockchain. The data being transferred under the software we have in development is not financial (nor even controversial) in nature.

Despite that, because of the broad language used in the regulations, it appears the regulations proposed would likely apply to my small startup, particularly this clause:

"Controlling, administering, or issuing a Virtual Currency. (Note: This does not refer to virtual currency miners.)"

I understand the nature of the regulations is to provide a framework for legal businesses and exchanges, especially those that hold the currency and facilitate monetary transfers between fiat and virtual currencies. There is value in limited and targeted regulation, as Mr. Lawsky has said, to prevent another "Mt. Gox incident."

However, the proposed regulation goes too far. The clause mentioned above, among many others, greatly stifles creativity with respect to what can be done with the blockchain. A single person that develops a blockchain application that uses any form of digital token (or, "currency") to facilitate actions within a software program would be prohibited from doing so without a license.

Tokens used within these types of programs, although they may be freely transferable and sometimes possess value (more or less, depending on the action they facilitate) can be used for positive non-financial purposes - spam prevention is one of many.

The language used in the proposed regulations is far too broad and would apply to legal businesses operating outside New York State. As they are written now, the proposed regulations would apply to nearly every cryptocurrency business in existence that intentionally or unintentionally deals with New York customers, no matter where they operate.

Given the "Laissez Faire" nature of the cryptocurrency community, any form of regulation is not looked upon favorably by most. Despite that, prior to releasing the proposed regulations, many were encouraged about the prospect of legal integration with the existing financial system and publicly praised the efforts.

However, in the time since Mr. Lawsky released a preview of the BitLicense requirements, you can observe a very noticeable change in the tone of the community. They are extremely cynical of the intentions of the regulation, which may inadvertently encourage lawlessness and will likely end up causing more harm to unsuspecting consumers in the long term. I believe you will find far more support if the regulation only targets exchanges that deal specifically with the exchange between virtual currencies and fiat.

I respectfully request that you re-consider the broad nature of the regulations, offer regulation that instead applies specifically to exchanges (which have been the sole culprit of problems in the cryptocurrency community) and offer an extension of 180 days for the public comment period. Given the complex nature of Bitcoin and other digital currencies, a 45 day comment period is not adequate to address all of the issues with the existing regulation.

In short, the regulation as it stands will likely cause more harm than good, and will absolutely have a personal impact on where I choose to live and incorporate my business. I will not be able to afford any sort of bond or permanent cybersecurity team, nor would it even be necessary (there is no risk to protect consumers from) for the types of hardware and software we are developing, since we would have no control over their private tokens and are not holding them on behalf of consumers.

Please allow us the opportunity to give additional realistic suggestions and alternatives to the proposed BitLicense regulation, as it will certainly harm both startups (who will move their operations elsewhere) and consumers (who may be encouraged to instead use unregulated products and services, or even blocked from using existing products and services from businesses located outside of New York State) in its current form.

Thank you very much for taking the time to read and address these issues. I sincerely look forward to seeing the next iteration of the proposed regulations, which I pray will be more favorable for small startups like myself.

In the unlikely event that I can provide any additional context or recommendations, please do not hesitate to contact me via e-mail.

Sincerely,
Matt Rhodes