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**RE: Proposed New York Codes, Rules and Regulations  
Title 23, Chapter I, Part 200: Virtual Currencies**

Dear Attorney Syracuse:

Thank you for the opportunity to provide comments regarding the Department of Financial Services' (the "Department" or "DFS") proposed regulations related to virtual currency. As you may know, CFCU Community Credit Union ("CFCU") is a New York State chartered, federally insured credit union headquartered in Ithaca, New York. With over \$900 million in assets, CFCU provides a broad range of financial products and services to over 60,000 members who work, live or attend school in Tompkins and Cortland Counties. As such, we have a vested interest in any proposed regulations which might impact the financial services industry in New York State.

CFCU's board of directors and management team fully support the establishment of a regulatory framework for the licensing and oversight of companies involved in virtual currency. We believe that by drafting proposed regulations related to virtual currency, DFS is taking an important step toward ensuring safety and soundness in the burgeoning virtual currency industry. We appreciate the notion that by promulgating regulations for virtual currency at this time, New York State is yet again establishing itself a leader in financial services consumer protection.

Our comments and suggestions related to the proposed virtual currency regulations relate to three specific issues: fidelity bond insurance coverage, cyber security, and capital requirements. We believe that these three topics are particularly important in the preservation of consumer financial interests in the virtual currency industry. Without making some minor modifications to the proposed regulations in these three areas, we fear that consumers will be unduly and unnecessarily exposed to risk of financial loss.

First, we are concerned that there are no requirements for licensees to maintain fidelity coverage. We believe that such coverage should be mandated by the regulations, at a level commensurate with the risks related to this industry. We would expect that fidelity bond coverage for officers

and employees of organizations having custody of or handling virtual currency should be similar in nature and amount to requirements placed upon depository financial institutions by the Federal Deposit Insurance Corporation and the National Credit Union Administration. This would seem particularly important given the fact that virtual currencies are not fiat currency and are not federally insured.

In addition, we believe that the cyber security requirements under the proposed regulations (Section 200.16) must more directly address theft prevention. As you know, there have been a number of high profile virtual currency thefts from currency exchanges over the past 18 months (e.g. Mt. Gox, Flexcoin, Dogewallet). Any applicant should be required to show what systems it has in place, what steps it intends to take to prevent virtual currency theft, and what procedures it would implement in the event that a theft occurs. Such showings should be made to the satisfaction of the Department.

Finally, we believe that the capital requirements in Section 200.8 should be more detailed and specific. For example, capital requirements for federally insured depository financial institutions are formulaic. While there may be no perfect system for establishing capital requirements, a formulaic approach would at least provide an assurance of consistency across the industry. The discretionary approach taken by the Department in the proposed regulations does not seem to provide a meaningful assurance of safety and soundness for the industry and its participants. We would expect that your Department would want to approach examinations of - and corrective actions for - licensees based upon a bright-line calculation of whether a licensee is well capitalized, adequately capitalized, or undercapitalized. A formulaic approach would also provide clear guidelines for licensees to follow in order to maintain regulatory compliance. With this said, however, we agree that the capital requirements for licensees under the virtual currency regulations should be based not only on assets and liabilities of the licensee but also on trading volume of the licensee. We would also expect higher than capital requirements for licensees than for banks and credit unions, given the greater risks and potentially more limited liquidity/ability to convert virtual currency to fiat currency.

We again thank you for the opportunity to comment on your Department's proposed virtual currency regulations. We are hopeful that you will consider implementing our comments as you contemplate the redrafting of the regulations. Should you have any questions about our comments, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read 'William D. Crane', with a long horizontal flourish extending to the right.

William D. Crane  
Chief Administration Officer and General Counsel