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Dear Superintendant Lawsky,

It's been a pleasure to watch how you've handled the legislative undertaking of Bitcoin. I've never felt so inspired to reach out to a politician and share my opinion. Your posting on Reddit, the Bitcoin hearings, etc, have been such a new age way of going about setting rules that it's challenged my preconceived notions of politicians being unchanging and uninformed.

Also, the speed with which you're determined to find appropriate regulatory guidelines is courageous and commendable. You're doing a great job. I think in your field of work, you suffer a great deal of criticism and a lot of blame when things go wrong. But when things are appropriately regulated, you get little or no positive feedback. Last I checked, when we look at the great innovative companies today like Google, Facebook, Apple, etc, no one mentions the legislators that appropriately regulated or held back regulating the internet at the appropriate time. And the impact of the innovative change of the internet has only begun. A new era of cloud computing, big data, the internet-of-things, and mobile devices will usher in innovation nobody dreamed would be possible back when it all started. Viral growth is something that no one can fully understand, and its impact is always far wider than even the greatest technologists predict.

So it's amazing that you're taking this all into consideration at this early stage of Bitcoin technology, especially when you consider the potential impact it can have. As I'm sure you realize, the first regulative framework in New York will likely set the tone for regulation in other States, and ultimately federal legislation and legislation in other first-world countries. When you couple the widespread geographical outreach of this legislation with the innovative potential of Bitcoin, the stakes are extraordinarily high. Mind-blowing really. I don't envy your position, but I want to help.

Bitcoin is something extraordinarily new. And I say this as someone working right in front of the firehose of new emerging tech. It's amazing how time and time again, new tech is ultimately received in the same way. Ironically, the more innovative something is, the more the media, the masses, other technologists, and politicians tend to reject it. The new often gets thrust aside and overlooked. The new needs friends. Instead of being quick to embrace it, we form around it in panic and attack it like a pathogen. Things get blown way out of proportion.

But let's regulate this thing appropriately. Amidst the haste and panic, let's maintain the cool of an airplane pilot. In the midst of a storm, anyone's instinct is to panic and start guessing which way to maneuver. Your senses take over. They instruct you in pilot school to instead continue to focus on your instruments, no matter how much it feels like they aren't correct. Let's look at the facts.

The cryptocurrency market is actually extremely small in size. The ~$10B total market capitalization is dwarfed, for example, by the $15B in unspent Amazon gift cards floating around. Furthermore, because of the transparent nature of Bitcoin, anyone can participate: tech geeks, people of all nations, non-accredited investors etc. On top of that, more-so than with other equities, people hold Bitcoin as a store of value. Thus the market cap is actually extremely inflated relative to it's technological and infrastructural pace. The biggest Bitcoin businesses, Coinbase and Bitpay, recently crossed the 1 million user mark, which may sound like a lot, but in tech, a million users is still very small and represents very early stage companies, often given valuations of $10-100M at the most. The size is important because it's partly indicative of the infantile nature of Bitcoin, both as a new technology and the level of talent and immaturity it attracts in a new industry.

If we consider the transparent nature of what might ordinarily be a private equity investment, the volatility of Bitcoin screams for attention. Yet when you look at nearly any up and coming company, from the early Google to the horrendous failure of Webvan, if the day to day value in their infantile stages were publically available, it would have given most people a sore stomach. Emerging tech is always extremely volatile and different events can shatter or inflate the value proposition on a daily basis. Bitcoin is like any private startup, only with all its information publically available from day 1. With its short five-year history, it may seem like Bitcoin has been around for a long time. But the average tech IPO happens in 9 to11 years. For Bitcoin, that would mean another 5 years before most of the public is even able to see a price for it. I think we have to be careful with over-regulating something at this stage, because it's garnered more attention than something this small usually deserves. Having said that, I understand the early history of Bitcoin and it's early attraction to bad players.

Over the last 6 months, I've seen an exponential rise in the number of talented individuals entering the Bitcoin scene. Cryptocurrencies are attracting top talent at a breathtaking pace, from Harvard grads, to top Fin-tech employees leaving Meryl Lynch, Goldman Sachs and Morgan Stanley, as well as notable founders from

other markets. This is in stark contrast with the initial supporters of Bitcoin. Emerging technical fields rarely attract the crème early on. As you are well aware, the criminal minds tend to actually adopt new technology at a faster pace then the rest of humanity. They are often the most incentivized and have no jurisdiction nor desire to follow the status quo. It's unfortunate that this has tainted the image of Bitcoin in its early stages. I know the first time I read about Bitcoin, I understood it as a silly tool for pilfering drugs and money laundering. It took me nearly a year before I realized the ramifications of Bitcoin and why such an ingenious invention was necessary to disrupt and fundamentally challenge our existing conceptions of how value should exchange hands. Then, when you consider the possibilities for reinventing Wall Street, smart property, micropayments, remittances, and banking to the unbanked 3.5 Billion people, the innovative potential behind Bitcoin must be allowed to unfold.

Fast forward to today and I'm still waiting on a pending transaction for an ACH bank transfer that took no less than 5 days to get there. If we look around, there's much to be desired from our current financial system. The financial crisis of 2008 certainly showed us that we have a lot of ground to cover if we want to create a truly safer country and economy. Bitcoin, created in 2009, was born out of this need for change. It's so radically new and different, but not because it's super complicated, but because we've been stuck in an old relatively non-competitive financial system for well over a century. I think we have to be careful how we treat this new baby. It's hardly shown its true colors yet. But it is certainly possible to kill it with over-regulation at this point. The complexity of adhering to broad reaching legislation at this early stage will cripple its growth and potential. Top talent will no longer be attracted to the field and cryptocurrency tech companies won't get the support they need. I certainly won't be funding them if the barrier to compliance is too high.

I don't understand the full nature of AML or KYC compliance, and I know there's been plenty of focus on those parts of the proposed legislation, so I'm not going to talk much about those. My biggest concern is regarding the proposed rules with Bitcoin held in custody for consumer protection:

> Section 200.9
> Custody and protection of customer assets
> (a)
> Each Licensee shall maintain a bond or trust account in United States dollars for the benefit of its customers in such form and amount as is acceptable to the superintendent for the protection of the Licensee's customers.
> (b)
> To the extent a Licensee secures, stores, holds, or maintains custody or control of Virtual Currency on behalf of another Person, such Licensee shall hold Virtual Currency of the same type and amount as that which is owed or obligated to such other Person.
> (c)
> Each Licensee is prohibited from selling, transferring, assigning, lending, hypothecating, pledging, or otherwise using or encumbering assets, including

> Virtual Currency, held, stored, or maintained by, or under the custody or control of, such Licensee on behalf of another Person.

This section(especially 200.9c) would completely eliminate any chance for improvement upon the fractional reserve banking system, completely disempowering cryptocurrency companies and financial innovators from being competitive with traditional banks. Banks have a monopolistic advantage, being allowed to create loans and take on unscrupulous risk, keeping only 3% of customer funds in reserves. When they make poor decisions, they're allowed to stay in business for a price. The six biggest U.S. banks paid over $100B in legal fees over the past five years to defend their outdated accounting and poorly risk-adjusted systems leading to the 2008 financial crisis. Taking a birds eye view, one begs to question, why are we making it even harder for the miniscule up-and-coming competition, when the largest banks are allowed to write bad home loans leading to major economic collapse, pay exorbitant legal fees at their customer's expense, and still be the only ones allowed to get a return on their customer's money. Bitcoin might be the first new option for customers in over a hundred years, and possibly the only one in our lifetimes. To limit what Bitcoin businesses can do with their customers funds like this will shut out a very large market that Bitcoin is capable of transforming. Bitcoin has the potential to provide much more efficient and innovative banking, while in full compliance with all the existing banking rules. By creating special reserve rules for Bitcoin banks/businesses, we're segregating the dollar from Bitcoin, and disallowing the Bitcoin technology to form a competitive solution. This is absurd, since Bitcoin's accountability and public ledger is a far more advanced system than the dollar. Ultimately, transparency is the best regulation, and it's built into Bitcoin.

I've spoken with founders of many up-and-coming innovative solutions that greatly improve upon modern banking and when in place, could likely be the solutions that prevent the 2008 financial crisis from ever repeating itself. The regulation regarding Bitcoin business' assets must not be considered separately from the way traditional banks manage customer assets. In regulating, we must consider the existing banking policy and that current banking systems do not mitigate their risks appropriately. I understand the recent horrible failure of Mt Gox may have influenced the need to heavily regulate how Bitcoin institutions account for customer funds. But taking a broader approach to regulating Bitcoin businesses and internal investment is akin to seeing a few terrorists and nuking the entire country. It actually empowers the corrupt players and pushes out the legitimate ones.

It's impossible for a bank to stay in business if it can't loan out or find solutions to get a return on its assets. Therefore, with the proposed laws above, no U.S. Bitcoin bank will ever be able to compete with a traditional bank.

With these rules in play, the only doors open for business will be those of the shady overseas players. Since Bitcoin has no jurisdiction, there will always be banks

open. And because of the internet, there will always be U.S. customers. In this sense, having broader restrictions to protect the consumer may stifle development of safer, intelligent well-funded cryptocurrency businesses in the U.S., and actually create a more fraud-ridden playing field, with U.S. Bitcoin customers less protected using overseas solutions.

We have the power to incentivize talent to create safe and innovative ways to bank using this technology, here in the United States. There is great financial incentive for improvement in the traditional banking system with tons of fees and fractional reserve banking. Traditional banking systems shave a pretty penny off of every transaction, and have a monopoly, with no competition due to the high legal barrier to entry. There are already very strict legal requirements for any kind of banking or value transfer here in the United States, and as far as I know, the Bitcoin bad players thus far have been ousted and prosecuted. The Texas man who ran a Ponzi scheme in 2013 had his assets seized and is on trial. Mark Karpeles of Mt Gox has been sentenced a year in jail in France, and is on trial in the U.S. Charlie Shrem is being tried for money laundering. Smart prosecution of bad players is happening here in the U.S. These events dwarf fraud trials in U.S. dollars, from the Maddoff $65B ponzi scheme to WorldCom's $100B misaccounting fraud, consumers need as much protection with the dollar as they do with any other currency.

Current banking systems are poorly equipped to adapt to 21st Century payment technology. The preventative measures that must be taken by banks to protect consumer dollars against hackers, coupled with the slow speed of bank transfers, is increasingly costly and prohibitive. I'm traveling through Europe, and my online banking has been frozen because they are unable to verify my identity despite my spending 8 hours on the phone with them and having a personal relationship with one of my bankers. The financial and time costs have been passed down to the consumer. The consumer deserves a choice.

Ultimately, the average consumer is extremely afraid of Bitcoin as it stands right now, and won't partake. Thus, the market you are currently addressing, with this regulation, is the enthusiasts and the innovators who are trying to build out this technology so it is safe for consumers. If it doesn't change in reputation and grow in security, the masses will never adopt it anyways.

Bitcoin's public blockchain and ledger is actually a much better system for accounting and provides a much-needed transparency in the financial world. Prosecuting someone with evidence on a public ledger is going to be much easier than gathering any sort of accounting records from traditional banking. Why does this growing solution deserve some strict extra-special regulatory treatment? Let's allow the high fees people are used to paying in banking be an incentive for the most brilliant minds here in the United States to reinvent these systems.

We've seen some bad use cases of Bitcoin so far in its short history, but only one thing is for certain: no one knows the capacity of how much good Bitcoin can do.

Let's allow these poor use cases to shape the law, without stifling technology and creative solutions. Bitcoin has the chance to be more disruptive than the internet as we know it today. No one, even technologists, foresaw the internet being as widely used and important as it is now. Perhaps the internet is an overused, or even inaccurate, example. Bitcoin could open a field of possibility as vast as "Chemistry" or "science" as we know them. In a way, this only makes your job more difficult, and I can't overstate how appreciative I am that someone like you is doing the best he can to get it right. Whatever you ultimately decide the regulatory framework should be, I applaud your courage and stand behind your decision and better judgment.

Thanks for doing what you do,

Ben Haun
Angel Investor and Startup Advisor
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