

October 21, 2014

Superintendent Benjamin M. Lawsky
New York State Department of Financial Services
One State Street
New York, NY 10004-1511

Re: New York State Department of Financial Services Proposed Rule Title 23,
Chapter 1, Part 200: Virtual Currencies

Superintendent Lawsky:

LedgerX LLC (“**LedgerX**”) welcomes the opportunity to comment on proposed rules recently published by the New York State Department of Financial Services (the “**DFS**”) pertaining to virtual currency business activity (the “**DFS Proposed Rules**”).

I. Background

LedgerX is a new company based in New York that has applied to become a federally registered and regulated derivatives exchange and clearing organization for derivatives on digital currency products (*e.g.*, options based on digital currencies such as Bitcoin). LedgerX was created to offer merchants and institutional market makers a solution for managing market exposure in digital currencies through the use of regulated, exchange-traded and centrally-cleared derivatives products. To this end, LedgerX has submitted applications with the U.S. Commodity Futures Trading Commission (“**CFTC**”) to become registered as a swap execution facility (“**SEF**”) and a derivatives clearing organization (“**DCO**”). Upon receipt of approvals, LedgerX intends to initially list derivatives products based on the Bitcoin digital currency, including options to purchase or sell Bitcoin to financially sophisticated parties that are “eligible contract participants” as defined by the Commodity Exchange Act, as amended (“**CEA**”).¹ LedgerX’s derivatives products will not be available to retail market participants.

¹ An “eligible contract participant” is defined in Section 1a(18) of the CEA. 7 U.S.C. § 1a(18). Generally, the following are considered eligible contract participants: (i) registered broker dealers; (ii) registered futures commission merchants; (iii) banks and other financial institutions; (iv) commodity pools with more than \$5 million in assets that are managed by a registered commodity pool operator; (v) entities with \$10 million in assets; (vi) entities with a guarantor that is an entity with \$10 million in assets; (vii) entities with a net worth of at least \$1 million entering into the contract for hedging purposes; (viii) individuals with amounts invested on a discretionary basis that exceed \$10 million, or \$5 million if the individual is entering into the contract for hedging purposes; or (ix) an entity all of whose owners are eligible contract participants having in aggregate at least \$1 million in net worth and are entering into an interest rate, FX or commodity derivatives in order to hedge a commercial risk.

Regulated derivatives exchanges such as LedgerX play an important role in the development of financial markets by providing liquidity and a secure venue for investors to manage short- and long-term risk. Similar to exchanges for financial products, LedgerX will serve the critical role of providing price transparency and a level-playing field for market participants to transact. The existence of a derivatives exchange for an underlying instrument generally increases liquidity and improves price discovery in the instrument, which reduces transaction costs, and we would expect the same to be true with digital currencies.²

LedgerX's clearing organization will act as a central counterparty to all transactions effected on the SEF, thereby reducing credit, delivery and systemic risks to the parties involved in the transaction. The clearing organization will stand between each party to a transaction (*i.e.*, the clearing organization will buy every contract from each seller and sell every contract to each buyer), and effectively guarantees the performance of each trade. LedgerX will operate a fully-collateralized clearing organization on which all transactions will be fully-collateralized at the time market participants enter into a transaction. No leverage is involved under a fully-collateralized clearing model because LedgerX participants may not buy or sell contracts on margin. The fully-collateralized feature greatly reduces systemic risk and minimizes the risk of counterparty default. The clearing organization will facilitate the delivery of the underlying digital currency when a long put or long call holder chooses to exercise its option to deliver or to receive delivery of the digital currency, respectively. After an option is exercised, the clearing organization will collect payment and transfer the digital currency. The clearing organization will take temporary possession of the asset in a settlement account before transferring the digital currency to the appropriate buyer's account. The clearing organization will not hold digital currency in a proprietary account.

LedgerX supports the efforts of the DFS to adopt and implement a regulatory framework for digital currency businesses and to serve as the model for a regulatory approach that strikes an appropriate balance between protecting consumers and promoting innovation. We welcome this opportunity to share our comments on, and recommendations to, the DFS Proposed Rules. Specifically, LedgerX wishes to provide input on three topics, each of which we believe is significant to an effective and well-functioning regulatory framework for digital currencies, and each of which addresses our belief that LedgerX and entities providing similar services should not be subject to the DFS Proposed Rules as they currently are crafted. The DFS regulatory framework should provide adequate protection while encouraging innovation in and growth of small businesses.

² See generally, Cade Metz, *The Next Big Thing You Missed: There's a Surefire Way to Control the Price of Bitcoin*, WIRED (discussing the need for Bitcoin derivative products as a way to protect against risk), available at <http://www.wired.com/2014/01/bitcoin-derivatives/>; Jerry Brito, Houman Shadab & Andrea Castillo, Abstract, *Securities, Derivatives, Prediction Markets and Gambling*, COLUM. SCI. & TECH. L. REV. (forthcoming 2014) (discussing the benefits that Bitcoin derivatives products will have); Interagency Task Force on Commodity Markets, Interim Report on Crude Oil (July 2008) (discussing generally the value of the price discovery function of futures markets and its help in reducing price volatility, allocating price risk and allowing more efficient business planning).

With this goal in mind, LedgerX first will address the overlapping regulatory regimes for some entities that will result if the DFS Proposed Rules are enacted without modification. Next, we discuss our view that the DFS Proposed Rules should not apply to entities whose use of digital currency is ancillary to the main service that they provide. Finally, we discuss the ways in which the DFS Proposed Rules are more stringent than the regulations that govern banks chartered in New York State. We believe that this stringency is unwarranted given the fact that the oversight of digital currencies can be incorporated into existing regulatory regimes.

II. The DFS Proposed Rules Apply Duplicative Requirements to Federally-Registered Entities, Such as CFTC-registered SEFs and DCOs, and Would Preempt Federal Regulation of Such Entities.

- A. *The DFS does not have jurisdiction over options or swap transactions effected on or subject to the rules of a CFTC-registered SEF or cleared by a CFTC-registered DCO.*

The CEA grants the CFTC *exclusive* jurisdiction with respect to accounts, agreements (including any transaction which is an option) and transactions involving swaps or futures contracts traded on or executed on a designated contract market (“**DCM**”) or a SEF (collectively referred to as, “**Exchanges**”).³ The CEA and CFTC regulations provide comprehensive regulation of commodity derivatives such as futures contracts, commodity options and swaps, and for a regime for the registration, regulation and oversight of Exchanges and intermediaries such as brokers, dealers and advisors. The CEA mandates strong customer protection rules, and the CFTC recently amended the customer protection regulations to strengthen the protections afforded to customers.⁴ Digital currencies are within the definition of the term “commodity” as defined in the CEA.⁵ Options on commodities, such as digital currencies, are within the exclusive jurisdiction of the CFTC.

Furthermore, Section 12(e) of the CEA preempts any other federal or state statute, or any rule or regulation thereunder, that governs commodity derivatives that are traded on a CFTC-registered entity (such as a SEF), other than antifraud provisions of general applicability.⁶ Under the U.S. Constitution’s Supremacy Clause, any state law that conflicts with a federal law is preempted by the federal law.⁷ LedgerX intends to list derivatives contracts on digital currencies on its SEF

³ 7 U.S.C. § 2(a)(1)(A).

⁴ Enhancing Protections Afforded Customers and Customer Funds Held by Futures Commission Merchants and Derivatives Clearing Organizations, 78 Fed. Reg. 68,506 (adopted Nov. 14, 2013).

⁵ 7 U.S.C. § 1a(9).

⁶ 7 U.S.C. § 16(e).

⁷ See, e.g., *Gibbons v. Ogden*, 22 U.S. 1 (1824); *Crosby v. Nat’l Foreign Trade Council*, 530 U.S. 363 (2000).

and clear such contracts through its DCO. Both LedgerX’s SEF and DCO will be registered with the CFTC, operate within CFTC regulations, and operate under the oversight of the CFTC. Accordingly, LedgerX and its contracts will be subject to the *exclusive* jurisdiction of the CFTC and should be exempt from the DFS Proposed Rules as it fits within a pre-existing federal regulatory scheme.

B. The CEA and CFTC regulations already provide a comprehensive regulatory framework for SEFs and DCOs that does not need to be duplicated through the DFS Proposed Rules.

SEFs, DCOs and the trading and clearing of commodity options and other derivatives are subject to a comprehensive regulatory and customer protection regime under the CEA. SEFs and DCOs must register with, and be approved by, the CFTC. SEFs and DCOs adhere to the applicable Core Principles set forth in the CEA.⁸ The Core Principles require, among other things, that SEFs and DCOs have adequate financial, operational and managerial resources; have adequate and appropriate risk management capabilities; maintain books and records; and have appropriate standards for participant and product eligibility. The CFTC has promulgated regulations for SEFs and DCOs that expand upon and implement these Core Principles. In many cases, this regulatory framework already encompasses the DFS’ proposed key requirements for firms holding licenses to engage in Virtual Currency Business Activity, as defined in DFS Proposed Rule 200.2(n) (“**Licensees**”). For example, the CFTC regulatory framework encompasses the safeguarding of consumer assets, maintenance of books and records, dispute resolution mechanisms, disclosure statements, anti-money laundering (“**AML**”) compliance, cyber security, financial and other reporting obligations, compliance officer requirements, emergency procedures and notification, among other items, and requires that registered entities are examined by the CFTC or National Futures Association, as set forth in more detail below.

Safeguarding Consumer Assets. Section 200.9 of the DFS Proposed Rules requires Licensees to adhere to rules governing the custody and protection of customer assets. The DFS Proposed Rules require that each Licensee must hold digital currency of the same type and amount as any digital currency owed or obligated by the Licensee to a third party. Licensees also would be prohibited from selling, transferring, assigning, lending, pledging, or otherwise encumbering assets, including digital currency, that the Licensee stores on behalf of another person. Each Licensee would be required to maintain a bond or trust account in U.S. dollars for the benefit of its customers in such form and amount as is acceptable to the DFS for the protection of the Licensee’s customers.

CFTC regulations similarly require the protection of customer assets. DCOs must comply with stringent rules regarding the segregation of all customer collateral from the DCO’s proprietary

⁸ See 7 U.S.C. § 7b-3(a) (applicable to SEFs) and 7 U.S.C. § 7a-1 (applicable to DCOs).

funds.⁹ SEFs and DCOs are also subject to stringent regulatory capital and liquidity requirements that accomplish the same goals as those in the DFS Proposed Rules.¹⁰

Digital Currency Receipts, Books and Records. DFS Proposed Rule 200.12 requires that Licensees maintain books and records that record, among other things, transaction information and statements or valuations provided to customers, and records demonstrating compliance with the DFS Proposed Rules.

CFTC recordkeeping rules for SEFs and DCOs are even more extensive than those proposed by the DFS. SEFs and DCOs are subject to comprehensive recordkeeping and reporting obligations under CFTC regulations.¹¹ For example, SEFs and DCOs must maintain records of *all* activities related to their businesses.¹² In addition, SEFs are required to “capture and retain audit trail data necessary to detect, investigate, and prevent customer and market abuses.”¹³ The data a SEF must record and maintain to comply with the CFTC’s audit trail requirement is exhaustive. Additionally, the CFTC requires SEFs and DCOs to make all rulebooks and fee schedules, among other types of information, publicly available to ensure transparency and open access.¹⁴

Consumer Complaint Policies. DFS Proposed Rule 200.20 requires that each Licensee establish and maintain written policies and procedures to resolve consumer complaints in a fair and timely manner. Licensees must also provide notice, in a clear and conspicuous manner, that consumers can bring complaints to the DFS’ attention for further review and investigation.

CFTC regulations require that DCOs provide dispute resolution procedures and aggrieved customers may also avail themselves of reparations procedures administered by the CFTC.¹⁵ LedgerX, for example, will provide a dispute resolution process to all market participants, which is outlined in LedgerX’s rulebook. LedgerX’s rulebook will be available on the LedgerX website in accordance with the CFTC rules discussed above.¹⁶

⁹ See 7 U.S.C. § 6d(a) and CFTC Rule 39.15. See also, 7 U.S.C. § 6d(f), CFTC Rules 1.20-1.30 and Part 22 of the CFTC’s regulations (delineating, among other things, segregation requirements and permitted uses of customer funds for cleared swaps and for other derivative instruments).

¹⁰ CFTC Rule 37.1302 (applicable to SEFs) and CFTC Rule 39.11 (applicable to DCOs).

¹¹ CFTC Rule 1.31.

¹² CFTC Rule 37.1000 (applicable to SEFs) and CFTC Rule 39.20 (applicable to DCOs).

¹³ CFTC Rule 37.205.

¹⁴ CFTC Rule 39.21.

¹⁵ CFTC Rule 39.17.

¹⁶ See *supra* note 11.

Consumer Disclosures. DFS Proposed Rule 200.19 states that Licensees must provide clear and concise disclosures to consumers about potential risks associated with digital currencies.

Under CFTC rules, commodity intermediaries, such as futures commission merchants (“FCMs”) and commodity trading advisors (“CTAs”), are required to make similar disclosures of material risks to customers.¹⁷ In addition, LedgerX intends to provide participants with risk disclosure statements as appropriate.

AML Compliance. As part of its AML compliance program, Section 200.15 of the DFS Proposed Rules requires each Licensee to: maintain extensive information related to digital currency transactions; verify customers’ identities; maintain records of the information used to verify such identities; monitor for transactions that might signify money laundering, tax evasion, or other illegal or criminal activity; and notify the DFS immediately upon detection of these types of transactions. In addition, a Licensee must notify the DFS within 24 hours of being involved in any transaction exceeding a U.S. dollar value of \$10,000 in one day, by one person. To meet these reporting requirements, Licensees must utilize an approved methodology of calculating the value of digital currency in fiat currency.

CFTC rules already require CFTC-regulated intermediaries to maintain and perform comprehensive AML and Know-Your-Customer policies and procedures with regard to their customers.¹⁸

Cyber Security Program, Business Continuity and Disaster Recovery. DFS Proposed Rule 200.16 provides that each Licensee must maintain a cyber security program and conduct penetration and vulnerability testing of its electronic systems at specified times. A Licensee also would be required to establish and maintain a written business continuity and disaster recovery (“BCDR”) plan reasonably designed to ensure the availability and functionality of the Licensee’s services in the event of an emergency or other disruption to the Licensee’s normal business activities.

CFTC rules also require CFTC registrants to maintain cyber security programs and BCDR plans, and to undergo periodic testing of BCDR plans. SEF and DCO applicants must provide to the CFTC detailed technology information for evaluation and must conduct testing to the CFTC’s satisfaction. Once registered, SEFs and DCOs must maintain robust BCDR policies and

¹⁷ See CFTC Rule 1.55 (governing FCMs) and CFTC Rules 4.31, 4.34 and 4.35 (governing CTAs).

¹⁸ See 31 U.S.C. § 5312(c)(1)(A) (incorporating FCMs into the Bank Secrecy Act’s (the “BSA’s”) definition of “financial institution,” thereby subjecting FCMs to the requirements of the BSA). See also 31 C.F.R. § 103.17 (requiring FCMs to report suspicious transactions to the Financial Crimes Enforcement Network and requiring reporting for certain transactions of at least \$5,000).

procedures.¹⁹ The plans must be reviewed on a continuing basis as part of any audit conducted by CFTC staff and must be tested annually by the SEF and DCO.

Independent DFS Examinations. DFS Proposed Rule 200.14 states that examinations of Licensees will be conducted whenever the Superintendent of the DFS deems necessary – but no less than once every two calendar years – to determine the Licensee’s financial condition, safety and soundness, management policies, and compliance with laws and regulations.

CFTC registrants, such as SEFs and DCOs, are already subject to periodic examination by the CFTC. Other CFTC-registered intermediaries, such as FCMs and CTAs, are subject to examination by designated self-regulatory organizations such as Exchanges and the National Futures Association. The CFTC publishes CFTC examination reports of Exchanges on the CFTC’s website for public review.

Reports and Financial Disclosures, Audit and Capital Requirements. Under DFS Proposed Rule 200.14, each Licensee must submit to DFS quarterly and annual financial statements. The annual financial statement must be accompanied by an opinion of an independent certified public accountant and an evaluation by such accountant of the accounting procedures and internal controls of the Licensee. In addition, under DFS Proposed Rule 200.8, the DFS will determine individual capital requirements applicable to Licensees.

CFTC registrants are already subject to comprehensive periodic financial reporting and audit requirements. SEFs and DCOs must submit quarterly and annual financial statements to the CFTC for evaluation.²⁰ Generally, SEFs and DCOs must have adequate financial, operational and managerial resources to discharge each of their responsibilities, and financial resources are deemed adequate if the value of the financial resources exceeds its operating costs for a one-year period, as calculated on a rolling basis.²¹

Compliance Officer. DFS Proposed Rule 200.7 mandates that Licensees designate a qualified compliance officer to oversee a compliance program.

CFTC rules require SEFs and DCOs to appoint qualified chief compliance officers who are responsible for monitoring the registrant’s compliance with CFTC requirements and other applicable laws and regulations, among other enumerated duties.²²

Notification of Emergencies or Disruptions. DFS Proposed Rule 200.17(d) requires a Licensee

¹⁹ See CFTC Rules 37.3 and 37.1401(b) (applicable to SEFs) and 39.3 and 39.18(e) (applicable to DCOs).

²⁰ CFTC Rule 37.1305 (applicable to SEFs) and CFTC Rule 39.11(f) (applicable to DCOs).

²¹ CFTC Rule 37.1300(b) (applicable to SEFs) and CFTC Rule 39.11(a)(2) (applicable to DCOs).

²² CFTC Rule 37.1500 (applicable to SEFs) and CFTC Rule 39.10(c) (applicable to DCOs).

to promptly notify the DFS of any emergency that may affect the Licensee’s ability to fulfill regulatory obligations or that may have a significant adverse effect on the Licensee, the Licensee’s counterparties or the market.

CFTC rules require Exchanges and clearing organizations to report critical and emergency events to the CFTC and certain emergency information to the public.²³

As demonstrated by the examples above, CFTC registrants, such as SEFs and DCOs, are subject to significant federal oversight that is equivalent to, and in most cases more robust than, the DFS Proposed Rules. While supporting the concept of consumer protection and regulation of digital currency service providers, LedgerX urges the DFS to exempt federally-regulated Exchanges and clearing organizations from the DFS Proposed Rules in light of the comprehensive and robust federal regulatory regime that already applies to such entities and in consideration of the significant overlap between the two regulatory regimes. The regulatory overlap that will arise if the DFS Proposed Rules are adopted as proposed will undoubtedly lead to unnecessary costs without the commensurate regulatory benefit. The result would stifle innovation and push “Virtual Currency Business Activity” out of New York and into less regulated locales. The costs of being subjected to both federal and state oversight clearly outweigh any potential benefit provided by two regulatory regimes, given that it is unclear what, if any, additional public protection would be provided by the double oversight.

C. To avoid duplicitous regulation, the DFS should revise the DFS Proposed Rules to exempt transactions and entities that are otherwise regulated by the CFTC in the same manner as other states and the federal government.

Many states explicitly exempt transactions that are within the jurisdiction of the CFTC from certain state laws that overlap with the federal commodities laws. For example, North Carolina exempts “an account, agreement or transaction within the exclusive jurisdiction of the Commodity Futures Trading Commission as granted under the Commodity Exchange Act”²⁴ from a state law restricting the sale, purchase or offer to sell or purchase or offer to enter into as seller or purchaser of any commodity contract or commodity option.²⁵ Just as states such as North Carolina leave commodity transactions to CFTC regulation, New York should similarly leave the regulation of transactions effected by or through a SEF or cleared by a DCO within the purview of the CFTC. Federal law also exempts CFTC-regulated entities from certain laws in recognition of the fact that additional regulation is unwarranted. Specifically, “persons regulated

²³ CFTC Rule 37.1401(d) (SEFs) and CFTC Rule 39.18(g) (DCOs).

²⁴ N.C. Gen. Stat. § 78D-4.

²⁵ N.C. Gen. Stat. § 78D-2. *See also, e.g.*, CA Corp. § 29531; S.C. Gen. Stat. § 39-73-40; Iowa Code § 502A.4; W. Va. Code § 32B-1-4; Miss. Code § 75-89-9; Idaho Code 30-1504; C.R.S.A. § 11-53-105; Neb.Rev.St. § 8-1719; RCW § 21.30.040; NDCC § 51-23-05; Ga. Code § 10-5A-4; N.R.S. § 91.210; 32 M.R.S.A. § 11204.

and examined by the SEC or CFTC,” including registered SEFs and DCOs, are excluded from the definition of “money services business[es]” for purposes of federal AML laws.²⁶ The DFS should similarly pattern the DFS Proposed Rules, deferring to the robust regulatory regime that the CFTC has established.

Additionally, all FCMs, CTAs, swap dealers and other entities regulated by the CFTC, and associated persons of such entities who are effecting transactions on or subject to the rules of such SEF or DCO, should be exempted where the digital currency transaction is incidental to the derivatives transaction in which they are engaging. As CFTC registrants, these entities and persons, including LedgerX, already will be subject to extensive and robust oversight by the CFTC, which now regulates swaps and has increased regulatory oversight as a result of the Dodd-Frank Act. As other states adopt digital currency laws, we expect that these states will exempt CFTC registrants with respect to derivatives and related digital currency transactions due to the CFTC’s monitoring capabilities and expertise in the derivatives industry. Requiring all CFTC registrants to be subject to state regulation merely because a transaction features the incidental use of a digital currency will increase the regulatory burden for these parties without providing any incremental benefit. The effect of duplicative regulations may cause some participants to exit the market altogether.

III. The DFS Proposed Rules Should Not Apply to Entities Whose Use of Digital Currency is Ancillary to the Primary Service that They Provide

As a registered SEF and DCO, LedgerX will facilitate derivatives transactions between holders of digital currency. To enter into a transaction, each counterparty must use a “wallet” service to transfer digital currency to LedgerX as collateral and, if applicable, to receive digital currency from LedgerX upon the completion of the transaction. During the term of each transaction, the only virtual currency that LedgerX will hold is the collateral transferred to it by both counterparties. Because entities like LedgerX will only act as intermediaries between the wallet Licensees of each counterparty, we believe that the intermediaries should be excluded from the DFS Proposed Rules.

In the same way that traditional broker dealers or FCMs, and not the exchanges on which they transact on behalf of customers, are charged with following AML and net capital rules, the wallet service providers should be required to follow the DFS Proposed Rules, as opposed to entities like LedgerX. Wallet service providers are in a better position to know the customer and have a much greater hand in storing and transmitting digital currencies. Requiring both wallet service providers and entities such as LedgerX to become Licensees and to follow the same rules is duplicitous and overly burdensome in the same way that requiring SEFs and DCOs to be regulated by both federal and state regulators is. SEFs and DCOs should only be regulated by the existing regulatory regime governed by the CEA and CFTC. This option is stronger with respect to federally-regulated entities because the regulations are specifically tailored to the activities of these types of entities, which are already supervised by an agency with expertise in

²⁶ 31 C.F.R. § 1010.100(ff)(8).

regulating such entities.

In order to ensure that the DFS Proposed Rules do not encompass entities like LedgerX that are merely intermediaries for digital currency, we suggest that the DFS narrow its definition of “receiving or transmitting” and “securing, storing or maintaining custody”²⁷ so that only entities that are formed to primarily perform these services are subject to the DFS Proposed Rules, whereas entities like LedgerX, whose transmittal and custody of digital currencies is ancillary to its primary services (acting as an exchange and clearinghouse) and whose customers must use existing Licensees in order to use its platform, are unaffected by the DFS Proposed Rules.

IV. The DFS Proposed Rules Are More Stringent in Many Cases than the Regulations that Govern Banks, Despite the Fact that Banks Pose a Greater Systemic Risk than Virtual Currency Businesses

Finally, LedgerX contends that the DFS Proposed Rules are needlessly more extensive in several respects than those governing banks licensed in New York, even though banks represent a greater systemic risk than a business that is involved with digital currencies. For example, under Section 128 of the New York State Banking Code, a bank must preserve all of its required records for at least six years. Under the DFS Proposed Rules, Licensees must preserve records for at least ten years. It is unclear why there is a difference in recordkeeping requirements, as both banks and Licensees may perform similar functions when they hold and transfer traditional currencies or digital currencies.

Additionally, under the DFS Proposed Rules, Licensees would only be permitted to invest in high-quality, short-term investments. Banks are not under the same restrictions. Instead, banks may make long-term investments in any type of debt that is “not in default as to either principal or interest when acquired.”²⁸ Also, the DFS Proposed Rules require that any employee of the Licensee must submit their fingerprints to the FBI. In contrast, under the New York State Banking Law, only the persons submitting the application on behalf of the bank is required to submit fingerprints.²⁹

We do not understand the rationale for imposing more stringent rules on Licensees than on banks. The DFS Proposed Rules may impede the establishment of digital currency businesses in New York. In addition, we suggest that the DFS consider whether the current rules governing the licensing of money transmitters in the state of New York, as well as federal regulation for certain entities, consist of a sufficient pre-existing framework for digital currency regulation. Instead of creating a completely separate regulatory regime for digital currencies, as is now the case with the DFS Proposed Rules, the DFS should recognize the overlapping regulations

²⁷ As defined in DFS Proposed Rule 200.2(n).

²⁸ N.Y.S. Banking Law § 97(1).

²⁹ N.Y.S. Banking Law § 4002.

applicable to many entities whose business will involve digital currencies in some way (such as those described in Section II.B) and enact rules that fill in regulatory gaps as opposed to replicating existing rules and overburdening new businesses. Accordingly, we respectfully request that the DFS takes our comments into consideration when the DFS adopts final regulations.

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Thank you for giving LedgerX the opportunity to comment on the DFS Proposed Rules. Should you have any questions regarding our comments, please contact the undersigned at 


Respectfully submitted,



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LedgerX LLC