



Coinbase
548 Market St., #23008
San Francisco, CA 94104

March 16, 2015

New York State Department of Financial Services (the "Department")
One State Street
New York, NY 10004-1511

Re: Comments on Proposed Rulemaking regarding Regulation of the Conduct of Virtual Currency Businesses

Ladies and Gentlemen:

Coinbase, Inc. ("Coinbase") is pleased to submit this comment letter to Department's second draft of the proposed rulemaking regarding regulation of virtual currency businesses. We value the opportunity to work with the DFS on these issues and appreciate the openness of the department to have such discussions.

In our comment letter submitted to your Department last summer¹, we proposed changes intended to encourage a more efficient and effective regulatory structure for virtual currency businesses operating in New York. In December 2014, the Department of Financial Services (DFS) released its revised BitLicense, which, to DFS's well-deserved credit, accepted many of the industry's proposed comments. But despite its improvement, we believe the BitLicense retains two fundamental design flaws:

A. The BitLicense unnecessarily duplicates federal anti-money laundering (AML) obligations.

Federal guidance requires virtual currency exchanges (among others) to register as Money Service Businesses (MSBs) and establish risk-based AML policies in accordance with federal law. DFS should treat such businesses in the same manner it treats licensed money transmitters and simply require them to comply with existing federal law. Instead, DFS has proposed its own sweeping AML regime that requires licensees to: (i) collect the identity and physical address of any parties to a virtual currency transaction, (ii) file state-mandated activity reporting on a 24-hour deadline, and (iii) verify the identity of any customer who establishes an account, among many other requirements. Although (i) and (iii) are conditioned with vague "practicality" caveats, these requirements would appear to eliminate opportunities to establish a reasonable risk-based approach to AML programs. The result would indiscriminately force all Coinbase customers in New York to pay a toll, vis-a-vis aggressive personal disclosure and verification procedures, as a prerequisite to establishing a Coinbase account.

In imposing recordkeeping and verification requirements not supported through the Bitcoin Protocol and which go far beyond what is required of money transmitters under New York or federal law, the draft BitLicense would effectively force licensees to operate closed, proprietary virtual currency networks, thus quietly eliminating the greatest feature of the Bitcoin Protocol: its global open access.

Similarly, it severely increases the complexity to operate as a Bitcoin company to have AML standards and reporting requirements at the state level. It's our impression that the DFS would like to set a scalable standard for other states. If AML standards were not left at the federal level, Bitcoin companies would have 49 potentially different sets of standards to operate a business in the United States (one for each applicable state/territory and the federal standard from FinCEN). Even more

¹ <https://blog.coinbase.com/2014/09/10/coinbase-responds-to-new-yorks-recently-proposed/>

complicated would be the technological mess of reporting transactions to all of these 48 states independently. Practically speaking, this is a high technical burden and introduces the risk of passing around customer information en masse. FinCEN has focused significant time and resources into providing thoughtful guidance on Bitcoin. It would be far clearer and cleaner to allow them to set standards federally.

B. The BitLicense unnecessarily duplicates New York's own money transmission regulations.

As we understand it, virtual currency businesses engaging in money transmission in New York will need to acquire both a money transmission license and a BitLicense. As we've stated before, the DFS can eliminate this duplicity, inefficiency, redundancies, and ambiguity by simply amending its money transmission regulations to add definitions for Virtual Currency and Virtual Currency Business Activity. We hope to continue working with DFS to assist in proposing appropriate, targeted amendments to existing laws or regulations that will work for the virtual currency industry.

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To conclude, we understand that businesses entrusted to safe keep and transfer virtual currency on behalf of others hold special responsibilities that DFS may wish to address through a form of regulation more akin to financial services regulation than to light-touch technology regulation. But there is no need to hold a nascent industry to standards that far exceed those applied to money transmitters under existing state or federal law. We believe existing regulations, appropriately tweaked, give regulators the tools they need to usher fresh technology and long-overdue innovation into the well-established financial space.

We will continue to work with DFS to provide residents of New York with the same access to useful technologies and services we provide to people all around the world.

We thank you for your continued efforts and look forward to discussing these issues with you further.

Please let us know if you have any questions.

Regards,



Fred Ehrsam
President and Co-Founder
Coinbase