



July 7, 2015

RE: Letter of Support for AB 1326

Senator Marty Block
State Capitol, Room 4072
Sacramento, CA 95814

Dear Chairman Block,

On behalf of Coin Center, I am writing in support of Assemblymember Dababneh's AB 1326, which would create a smart licensing regime for virtual currency businesses.

Coin Center is a nonprofit research and advocacy center focused on the public policy issues affecting decentralized digital currencies. Our mission is to build a better understanding of blockchain technologies and to help develop sound public policy for the virtual currency space. We do this by producing and publishing policy research from respected academics and experts, educating policymakers and the media about blockchain technology, and by engaging in advocacy. More information can be found on our website coincenter.org.

Decentralized digital currencies, such as Bitcoin, are an exciting new innovation with a great many potential uses—from simple value transfer, to property title and copyright ownership recordation, identity management, and even the creation of self-executing contracts. Some uses of digital currency technology look exactly like money transmission, an activity that requires licensing in California as in almost every other state. However, many other possible uses of the technology have little or nothing to do with money transmission and pose little or no risk to consumers. A smart approach to regulating digital currency businesses would distinguish between these possible uses and only require licensing for those who engage in activities that are truly like traditional money transmission. AB 1326—better than any other legislative proposal we have seen—accomplishes this. As a result, it preserves important consumer protections while not saddling cutting-edge innovation with unjustified regulatory burdens.

The purpose of money transmission licensing is to ensure that those who take on a position of trust by taking custody of consumer funds in order to transmit, exchange, or store those funds are reputable, well-capitalized, and bonded. Among many excellent features of AB 1326, its definition of “virtual currency business” stands out because it requires licensing of those businesses that take on a position of trust by “maintaining full custody or control of virtual currency on behalf of others,” and by implication excludes those businesses that,

while they may be employing virtual currency technology, do not take custody of consumer funds. The specific use of the words “*full custody*” is very important because decentralized digital currency technology allows for divided control of assets.¹ Such divided control for the first time makes possible financial services in which consumers do not give up control of their funds. By removing the need to completely trust a service provider, this innovation is a potential boon to cybersecurity and consumer protection.

Additionally, AB 1326 includes a set of very smart exemptions that similarly exclude from licensing many other businesses and individuals who engage in virtual currency activities without assuming a position of trust with consumers. These include payee agents, as well as those who contribute software, connectivity, computing resources, or security services to digital currency networks. These exemptions, along with the bill’s definition of “virtual currency business,” if enacted, will provide the kind of regulatory clarity and certainty that will encourage investment in, and development of, these innovative technologies while at the same time ensuring that consumers have access to safe and reliable cutting-edge services.

Other states around the country are also beginning to consider how best to extend their money transmission licensing to digital currency businesses. As previously mentioned, AB 1326 is the smartest effort we have seen. In enacting it, California would be deepening its position as the home of innovation. It would also be showing great leadership that would hopefully show other states a smart and balanced approach to protecting consumer interests without stifling innovation.

I therefore respectfully request that you support AB 1326 when it comes before your committee later this month. If we can ever help answer any questions about the technology or its implications for public policy and law, or if we can ever help connect you to members of the digital currency ecosystem, please do not hesitate to ask.

Sincerely,

A handwritten signature in black ink, appearing to be the initials 'JB' or a similar stylized mark.

Jerry Brito
Executive Director

cc: Members, Senate Banking and Financial Institutions Committee

¹ See Ben Davenport, What is Multi-Sig, and What Can It Do? A Backgrounder for Policymakers, Coin Center, Jan. 1, 2015, available at <https://coincenter.org/2015/01/multi-sig>; see also Peter Van Valkenburgh & Jerry Brito, State Digital Currency Principles and Framework, Coin Center, May 19, 2015, §§ 1.C-D, available at <http://coincenter.org/2015/04/state-digital-currency-principles-and-framework>.