



Centralized and Decentralized Virtual Currency Regulatory Compliance

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Panelists:

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- Constance Choi, General Counsel, Payward, Inc.
- Chris Larsen, CEO, OpenCoin, Inc.
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Agenda

- Regulatory Landscape
- Enforcement Actions & Considerations
- Industry Perspectives
 - Companies
 - Industry Association Initiatives
- Q&A
- Networking Reception 6:00 p.m.

Virtual Currencies, Networks & Ledgers

<u>DECENTRALIZED</u>	<u>CENTRALIZED</u>
Bitcoin	Liberty Reserve \$
Ripple	WoW Gold
LiteCoin	Linden \$
FeatherCoin	Points
TerraCoin	

Ecosystem Participants & Core Concepts

Issuer	Open Order Book
Administrator	P2P
Exchanger	Acceptance Merchant
Seller	Payment Processor
Decentralized Ledger	Distributed Foreign Exchange
Distributed Network	Application Developer
Trading Platform	Open Source Software & Protocols
Mining	Investment Funds
Blockchain	

Regulatory Landscape

- Federal Money Services Business Laws
- State Money Transmitter Laws
- Other (rapidly expanding list)
 - Securities and Commodities Laws
 - Political Law
 - Gambling
 - Tax
 - Payroll
 - Insurance / Underwriting
 - Privacy & Security
 - International

Federal MSB Laws

- Prepaid Access
 - Open Loop
 - Closed Loop
- Money Transmission
 - “Decentralized Virtual Currency”
- Registration, AML Policies, KYC, Reporting

State Money Transmitter Laws

- Triggers
 - Money Transmission
 - Stored Value
 - Payment Instruments
- One size does not fit all
- Licensing, Bonding, Net Worth, Permissible Investments, Audits

Current Environment

- Intense regulatory & law enforcement scrutiny
- Serious regulatory compliance race
- Rapidly evolving landscape
- Enforcement actions
- Policy development and regulatory gap filing
- Infrastructure build-out / innovations
- Passionate user community
- Industry self-regulation & best practices
- International scope

Recent Regulatory & Enforcement Developments

- Regulatory
 - FinCEN Virtual Currency Guidance
 - Congressional Letters & Hearings
 - Federal Election Commission
 - GAO Tax
 - International Regulatory Views

Recent Law Enforcement Activity

- Liberty Reserve (Incorporated in Costa Rica, 2006)
 - At least 200,000 customers in the U.S
 - Processed more than 12 million transactions annually
 - Not registered in the U.S. as a money-transmitting service
 - \$6 billion money laundering scheme
 - Allegations that the system was designed to attract criminals and criminal activity through the website
 - Documents showed actual knowledge by operators
 - 7 owners and associates indicted; massive seizure

Recent Law Enforcement Activity

- Mt. Gox
 - Allegations that it was unlicensed money transmitter and, through a U.S. subsidiary, conducted unregistered money transmission business
 - No charges yet filed, but likely to include:
 - Unlicensed Money Transmission, 18 U.S.C. § 1960
 - False Statements, 18 U.S.C. § 1001

Recent Regulatory Activity

- California Department of Business Oversight
 - C&D Letter to the Bitcoin Foundation
 - Continued interest in virtual currency of all kinds

Recent Regulatory Activity

- New York Department of Financial Services
 - Very public inquiry into virtual currency, focused on BTC
 - Industry-wide subpoena along with memo

Recent Regulatory Activity

- New York DFS “Notice of Inquiry”
 - “If virtual currencies remain a virtual Wild West for narcotraffickers and other criminals, that would not only threaten our country’s national security, but also the very existence of the virtual currency industry as a legitimate business enterprise.”
 - “We look forward to working with the virtual currency industry and other stakeholders as our inquiry proceeds, and we move to put in place appropriate regulatory guardrails to protect consumers and our national security.”