An Overview of Digital Currency and Its Regulation

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What is Bitcoin?

- World’s first decentralized digital currency
- We’ve had digital currencies before
- Decentralized means
  - Not issued or controlled by central authority
  - No Bitcoin company, server, president
  - No intermediaries; it is a peer-to-peer network
Why Decentralization?

- Before the invention of Bitcoin, two parties transacting online always required a third-party intermediary
- Why? The double-spending problem
Cash
Trusted Intermediaries
Bitcoin
Solving Double Spending

- **Cash**: no need for trusted intermediaries
- **Electronic/Online Payments**: must employ a third-party trusted intermediary
- **Bitcoin**: online, but no need for intermediary
Why Decentralization?

Free Software + Internet Connection
What’s it good for?

- Relatively cheaper and faster
- Remittances
- New Possibilities
  - Large cross-border payments
  - Micropayments
- Applications beyond payments
- But most importantly...
Like the Internet before it, Bitcoin is an open platform for innovation.
Regulating a decentralized system

- At first blush seems difficult, but...
  - No different than cash, regulate activities
“We are attuned to the criminal use of Bitcoin, but there are many legitimate uses. These virtual currencies are not in and of themselves illegal.” —Mythili Raman, U.S. DoJ
Regulating a decentralized system

- At first blush seems difficult, but…
  - No different than cash, regulate activities
  - Less anonymous than cash
“The public ledger feature of the Bitcoin block chain differentiates Bitcoin, and other decentralized digital currencies, from many of the centralized digital currencies, such as e-gold and Liberty Reserve. The block chain makes it harder for criminals to hide their illicit activity.” —Edward Lowery, U.S. Secret Service
All times are UTC (Coordinated Universal Time)
Regulating a decentralized system

- At first blush seems difficult, but…
  - No different than cash, regulate activities
  - Less anonymous than cash
  - New intermediaries emerge
Federal Regulation

- Anti Money Laundering (FinCEN)
- Tax Treatment (IRS)
- Financial Regulation (SEC & CFTC)
- Consumer Protection (CFPB)
- Other (FTC, FEC)
State Regulation

- Money Transmission Licensing
  - Texas & Kansas
  - New York
  - California, Pennsylvania, New Jersey

- Tax Treatment
  - New York
  - New Jersey
There’s much more to learn...