

July 8, 2015

The Honorable Marty Block, Chair
Senate Banking and Financial Institutions Committee
State Capitol, Room 4072
Sacramento, CA 95814

The Honorable Andy Vidak, Vice Chair
Senate Banking and Financial Institutions Committee
State Capitol, Room 3082
Sacramento, CA 95814

Dear Senators Block and Vidak:

We are companies in the state of California whose businesses are related to or focused on digital currencies. It has come to our attention that AB 1326, a draft bill seeking to license digital currency businesses, has passed the California State Assembly. We are writing to you today to tell you about our emerging sector, offer insights related to the bill, and to express our interest in collaborating with you as the legislation works its way through the Senate.

California is the home for much of the innovation in Bitcoin and blockchain technology. It was the first state to legitimize digital currencies when Governor Brown signed AB 129 “Lawful Money” into law, clarifying that such technologies are legal. In the past few years, California-based digital currency companies have raised hundreds of millions of dollars from some of the most reputable venture capital and financial services firms in the country. This new industry is on track to reach \$1 billion in investment in the next few years, and has brought thousands of jobs to the state, with many more to come.

The principal players based in California operating in the digital currency sector span a wide spectrum of technology and business applications. These include businesses that:

- build core technological infrastructure for digital currencies,
- provide merchant processing services using digital currency,
- develop hardware devices to run digital currency networks,
- build security solutions to protect digital currency users and businesses,
- allow users to send tips or micropayments to other users, and
- develop tools for programmers building applications with digital currency.

The underlying technology that powers our businesses is based on the well-established, peer-reviewed, and publicly-supported science of cryptography, as well as state of the art network deployments, the Internet, and new mobile applications.

Digital currency technology enables wide-ranging benefits for the future of the financial and technology sectors. For example, digital currencies provide new opportunities to improve financial privacy and security. In an age in which data breaches seem to be a daily occurrence, blockchain technology can provide decentralized alternatives with better security models. Further, the decentralized nature of Bitcoin's network allows for an unprecedented level of security in the financial sector with a myriad of potential use cases such as cryptographically secure automated contracts and shared, non-controlling custody (i.e., "multisig"). Lastly, digital currency technologies provide opportunities for financial inclusion on both a local and global level. If allowed to flourish, they can help address problems surrounding access to financial services for millions of Californians, and billions of people worldwide.

We applaud the crafters of AB 1326 "Virtual Currency" for exempting holders of Money Transmission licenses and eliminating unnecessary redundancy. Such licensing already addresses much of the risk from a consumer standpoint, as most of the services that are holding full custody of users' digital currency funds interact with US Dollars. We are also pleased that the authors removed from the last draft the second half of the definition of *virtual currency business* relating to "conversion or exchange," as it would have created licensing requirements for many innovative companies that do not pose consumer risk.¹

That said, we would like to note a few additional issues that are important to the future of our industry and an entire new generation of technology:

- We strongly support the current use of "full" to modify custody and control, and we seek clarification such that the definition of "full custody" or "control" is limited to unilateral uses. We believe that if a business is not taking unilateral custody or control of funds, it should not be subject to regulation.
- We appreciate the addition of the provisional license and would like to continue to work with you on ways to expand it and grow the ability of small startups to innovate and flourish. As California is the home of many major tech companies started in a garage, our hope is to enable the next generation of entrepreneurs.

The development of this technology is still in its early days. Crafting policy that enables yet-to-be-determined future uses is of the utmost priority. As such, we would like to underscore the importance of a hearing as the bill progresses through the Senate and respectfully request the opportunity to expound upon our work and how this technology can provide far-reaching benefits to the state of California.

Our goal is for California to set an example of how best to collaborate with the technology community by shaping policy that spurs innovation while bringing jobs and investment to the state. As we continue building our businesses in California, we will contribute to the state's economy by providing greater value to citizens, creating employment opportunities, improving access to financial services, and strengthening our local and global financial system.

¹ See a recent letter for the record from Coin Center to Chairman Dababneh that clearly articulates why the 'exchange' part of the definition adds no clear consumer benefit yet potentially hampers certain innovative uses of the technology. The letter is available at: <https://coincenter.org/2015/06/second-letter-to-california-state-assembly/>

California has been the national leader in crafting pro-technology digital currency legislation thus far. We are appreciative of the great progress made since the first version of the bill was introduced in the Assembly. We look forward to engaging with you further on this opportunity to lead the charge on innovation-friendly policy surrounding the digital currency industry.

Sincerely,

BitGo
Bitnet
Blockstream
Chain.com
Gem
Mirror
Xapo

cc: Members, Senate Banking and Financial Institutions Committee
Chairs, Senate Energy, Utilities, and Communications Committee
Chairs, Senate Subcommittee on California's Innovation, Technology, and Life Sciences Economy
Assemblymember Matt Dababneh, Chair, Assembly Committee on Banking and Finance
Mark Farouk, Chief Consultant, Assembly Committee on Banking and Finance
Eileen Newhall, Staff Director, Senate Banking and Financial Institutions Committee