

## Bitcoin: New York First State to Propose Regulations

By Shea Bettwy, J.D. Candidate 2016 | July 29, 2014

The popular virtual currency, Bitcoin, has a marked history of [use in the black market](#) – made practical by its ability to be exchanged anonymously without being easily traced. As a result, this has [led to a push](#) for regulations that would increase accountability and reduce criminal activity. On July 23, New York issued a Notice of Proposed Rule Making from the New York State Department of Financial Services on “[Regulation of the Conduct of Virtual Currency Businesses](#).” Those businesses would have to obtain a license to engage in virtual currency business activity essentially by demonstrating that business will be legitimate.

To review briefly, Bitcoin is a digital (or “virtual”) currency that is exchanged swiftly and cheaply through peer-to-peer technology. Bitcoins are obtained either by “mining,” which requires specialized computer hardware, or simply by exchanging regular money. [Kiosks](#) where people can buy bitcoins or exchange them for cash can now be found in some major cities. The use of bitcoins as a form of payment in the mainstream market is spreading, with companies such as Overstock and [Dell](#) now accepting it.

[Benjamin Lawsky](#), the superintendent of the New York State Department of Financial Services, stated that the regulations aim to “strike an appropriate balance that helps protect consumers and root out illegal activity—without stifling beneficial innovation.” Licensees would be required to provide documents containing financial particulars and company details, to institute a compliance policy to prevent money laundering or fraud, to establish a cybersecurity program, to comply with disclosure requirements to protect consumers, to submit to examinations, and to assume several other consumer protection and accounting responsibilities ([full text of the proposed rule](#)).

The proposed rule [would not require](#) ordinary consumers or sellers that use virtual currency, nor bitcoin miners, to get a license. Proskauer Rose LLP [notes](#) that the regulations target “digital currency exchanges, digital wallet apps and services, merchant service providers, virtual currency issuers, and other similarly situated businesses.”

Bitcoin buffs that envision a currency free of government oversight are predictably flustered by the proposal, but [investors such as the Winklevoss twins](#) see virtues in government involvement. For example, government acknowledgment of virtual currencies may [attach some legitimacy](#), and regulation may provide predictability for investors. Moreover, balanced regulation may help virtual currencies achieve a mainstream character and liberate Bitcoin from its black market reputation.