

New York July 2014 “BitLicense” Proposal: Visual Memorandum

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On July 17, 2014, the New York State Department of Financial Services (NYDFS) published its proposed comprehensive regulatory scheme for virtual currency businesses, called “BitLicense.” Prompted by concerns about the use of virtual currency in money laundering, consumer fraud and other criminal activity, the proposal represents the first attempt to comprehensively regulate Bitcoin and other virtual currency activities. The proposed regulations follow subpoenas to many Bitcoin businesses and hearings held by the NYDFS. Under the proposed regulations, most businesses involved in virtual currency transactions in or involving New York, excluding merchants (as well as consumers), would be required to apply for licenses from the NYDFS. The proposed regulations also have anti-money laundering, cyber security, consumer protection and financial and reporting requirements, among others. If finalized as proposed, the regulations would profoundly impact the virtual currency industry, create high barriers to entry and leave many important questions unanswered. However, as a result of increased compliance focus and decreased legal uncertainty, licensed companies likely would find it easier to establish banking relationships, and institutional investment in the virtual currency space would likely expand. Comments on the proposal are due to the NYDFS by September 6, 2014.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Joseph A. Hall

+1 212 450 4565
joseph.hall@davispolk.com

Neil H. MacBride

+1 202 962 7035
neil.macbride@davispolk.com

Daniel E. Newman

+1 212 450 4992
daniel.newman@davispolk.com

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