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CONFERENCE OF STATE BANK SUPERVISORS

## STATE REGULATORY REQUIREMENTS FOR VIRTUAL CURRENCY ACTIVITIES CSBS MODEL REGULATORY FRAMEWORK

September 15, 2015

### BACKGROUND AND KEY ISSUE OVERVIEW

#### Introduction

The Conference of State Bank Supervisors (“CSBS”) formed the CSBS Emerging Payments Task Force (“Task Force”) to examine the intersection between state supervision, state law, and payments developments, and to identify areas for consistent regulatory approaches among states. This effort included an assessment of virtual currency activities and extensive outreach with a broad range of stakeholders. After engagement with industry participants, state and federal regulators, and other stakeholders, CSBS concluded that activities involving third party control of virtual currency, including for the purposes of transmitting, exchanging, holding, or otherwise controlling virtual currency, should be subject to state licensure and supervision.<sup>1</sup>

Licensing and supervision serve as a mechanism for protecting consumers, ensuring system stability, safeguarding market development, and assisting law enforcement. To further these objectives, meet the needs of states to address virtual currency activities, and promote consistent state regulation of virtual currency activities, CSBS developed a Draft Model Regulatory Framework (“Draft Framework”) for state virtual currency regulatory regimes.<sup>2</sup> The Draft Framework was released for public comment to seek feedback on the framework and on specific questions related to virtual currency.<sup>3</sup>

Substantive comments were received from 20 organizations. These organizations included virtual currency service providers, virtual currency trade groups, traditional financial services trade groups, consumer groups, a bank, a law firm, and a state banking regulator. Commenters largely supported the Framework with a diverse range of specific recommendations for issues within the Framework.

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<sup>1</sup> See CSBS Policy Statement on State Virtual Currency Regulation. Available at <http://www.csbs.org/regulatory/ep/Documents/CSBS%20Policy%20on%20State%20Virtual%20Currency%20Regulation%20--%20Dec.%202016%202014.pdf>.

<sup>2</sup> See State Regulatory Requirements for Virtual Currency Activities, CSBS Draft Model Regulatory Framework and Request for Public Comment. Available at <http://www.csbs.org/regulatory/ep/Documents/CSBS%20Draft%20Model%20Regulatory%20Framework%20for%20Virtual%20Currency%20Proposal%20--%20Dec.%202016%202014.pdf>.

<sup>3</sup> All comments are available at <http://www.csbs.org/regulatory/ep/Pages/framework.aspx>.



Based on the comments received and ongoing dialogue with various regulatory and private sector stakeholders, CSBS has finalized the Draft Framework as the CSBS Model Regulatory Framework for State Regulation of Certain Virtual Currency Activities (“Model Framework”). CSBS is issuing this Model Framework to assist those states seeking to develop and implement state regulatory regimes for virtual currency activities.

### **Key Issue Overview**

There were several key issues raised by commenters that are addressed or considered in the final Framework.

#### **Definition of Virtual Currency**

Several commenters sought a definition of virtual currency.<sup>4</sup> CSBS had defined virtual currency in a policy statement, but did not include the definition in the framework itself.<sup>5</sup> To ensure clarity and consistency, CSBS has included a definition of virtual currency in the final Model Regulatory Framework as follows:

Virtual Currency is a digital representation of value used as a medium of exchange, a unit of account, or a store of value, but does not have legal tender status as recognized by the United States Government. Virtual Currency does not include the software or protocols governing the transfer of the digital representation of value. Virtual Currency does not include stored value redeemable exclusively in goods or services limited to transactions involving a defined merchant, such as rewards programs.

States that require an update to their definitions can use this definition to clarify the scope of their statutes and promote consistency over state lines.

#### **Covered Activities**

Many comments suggested specificity as to the activities to be covered.<sup>6</sup> It is CSBS policy that entities performing activities involving third party control of virtual currency should be subject

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<sup>4</sup> For example, one commenter recommended “that CSBS adopt a specific definition of ‘virtual currency’ that will allow state policymakers to address prudential and consumer protection issues while leaving the existing payment system and its product untouched.”

<sup>5</sup> See CSBS Policy on Virtual Currency Regulation, *available at* <http://www.csbs.org/regulatory/ep/Documents/CSBS%20Policy%20on%20State%20Virtual%20Currency%20Regulation%20--%20Dec.%202016%202014.pdf>.

<sup>6</sup> For example, a commenter “strongly urge[d] the Conference to set a clear definition of covered virtual currency activities, include that definition in the Model Regulatory Framework (rather than in the policy statement as it currently exists), and strongly encourage the states to regulate virtual currency using some codified version of the model framework rather than engaging in haphazard reinterpretation of existing laws.”



to state licensure and supervision like an entity performing such activities with fiat currencies.<sup>7</sup> Accordingly, activities involving fiat currencies that are otherwise subject to state laws should be covered if undertaken using virtual currency.<sup>8</sup>

CSBS recommends states review their laws, regulations, and interpretations to ensure at a minimum the following activities are covered if performed using virtual currency:

- Transmission
- Exchanging:
  - Sovereign currency for virtual currency or virtual currency for sovereign currency
  - Virtual currency for virtual currency
- Services that facilitate the third-party exchange, storage, and/or transmission of virtual currency (e.g. wallets, vaults, kiosks, merchant-acquirers, and payment processors).

CSBS has included this list of covered activities in the framework to provide clarity to industry and states alike.

### Licensing Requirements

As part of the licensing process, CSBS added a requirement that potential licensees provide states with the details of their business plan. This information is used to determine risk, which drives regulatory decisions for financial, operational, and consumer protection requirements.

### “On Ramp”

Commenters urged CSBS to consider startup companies and the difficulties such firms have meeting licensing standards. Commenters also urged the creation of an “on ramp,” consisting of exceptions to licensing rules for new companies that could – based on low volumes and/or limited business activities – pose a lower risk to consumers.

The Framework does not include an “on ramp,” temporary or conditional license. State regulators understand the argument in favor of legal and regulatory incubation. However, these goals must be balanced against considerations including the following: (1) consumers can be harmed by entities regardless of size, and (2) the property interest created in a license carries due process and other procedural rights that are difficult to tailor and separate from other legal

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<sup>7</sup> See CSBS Policy on Virtual Currency Regulation. See also, *State Digital Currency Principles and Framework*, Coin Center Report, Peter Van Valkenburgh and Jerry Brito (May 2015) (“Trusted intermediaries . . . so long as they walk and quack like a money transmitting duck, offer the same case for regulation as traditional financial services.”) available at <http://coincenter.org/2015/04/state-digital-currency-principles-and-framework/>.

<sup>8</sup>



requirements. Despite these obstacles, “[i]t is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory” to solve this issue.<sup>9</sup>

### Use of a Licensing System

The draft Model Regulatory Framework included use of a licensing system to streamline license applications and information sharing. Commenters overwhelmingly advocated for use of the Nationwide Multistate Licensing System (NMLS).<sup>10</sup> Accordingly, the Framework recommends the use of a robust licensing system which supports regulators’ ability to share information in real time or close to real time and offers the potential of streamlining all technical aspects of licensing, including application processing, background check processing, reporting, and complaint management.

Commenters also advocated expanding the functionality of NMLS, calling for increased submission capabilities for states that require more extensive information.<sup>11</sup> The states, through CSBS, continue to build out the functionality of the NMLS to support more and more of the licensing process. In 2013, CSBS launched the Uniform Authorized Agent Reporting functionality (UAAR) that allowed Money Service Business licensees to report their agents to their state regulator in a single, uniform upload. Other initiatives that are being developed include the ability to electronically manage the issuance, maintenance, and claims process for surety bonds, and additional streamlined upload and reporting capabilities. Additionally, initial work is under way to develop an NMLS Money Services Business Call Report that CSBS anticipates states can use for collecting periodic information from licensed virtual currency companies.

Commenters also noted that a uniform application would be useful.<sup>12</sup> The NMLS utilizes a uniform application, known as the Company Form, which gathers all licensing materials needed

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<sup>9</sup> *New State Ice Co. v. Liebmann*, 285 U.S. 262, 311, (U.S. 1932).

<sup>10</sup> One virtual currency company commenter summarized that it “subscribes to the NMLS and [has] relied on it heavily in furtherance of multi-state licensing efforts. We greatly appreciate its efficiencies....” Another commenter stated, “[t]he NMLS system is an enormous step forward toward achieving more commonality. The time for completing a comprehensive application is reduced and more uniformity is established.” A traditional financial services association commented that “recent efforts to expand use of the [NMLS] to financial services providers outside the traditional mortgage lending space . . . [is] a positive model for potential expansion of existing NMLS infrastructure to include licensure of virtual currency market participants.”

<sup>11</sup> One commenter noted, “A further step may be a more general submission that covers those states that request more extensive information allowing all others then to use the general input.”

<sup>12</sup> One industry commenter stated, “[a] common application and guide to licensure would greatly enhance the efficiency of the licensing system.” Another stated, “[u]nquestionably a common application and guide would enhance efficiency. It would further facilitate communication between state regulators since information would be consistent.”



for all the states using NMLS to manage licenses.<sup>13</sup> To capitalize on this common application, the Framework recommends adoption of a system such as the NMLS.

### Financial Strength and Stability - Permissible Investments

There were varying perspectives on the appropriate denomination of permissible investments for companies engaged in the transmission of virtual currency. While commenters widely agreed that some type of capital requirement or bond coverage is necessary, some advocated for these reserves to be held in dollars,<sup>14</sup> while others advocated for like-kind reserves.<sup>15</sup> Considering the nascent state of the industry and compelling arguments for and against like-kind permissible investments, CSBS has included a flexible permissible investment requirement in the final Model Regulatory Framework as follows:

- a. Permissible investment reserves in the form of cash, virtual currency, or high-quality, highly liquid, investment-grade assets, in such proportions as are acceptable to the state.
- b. Acceptable methods of reserve to be determined by the Commissioner, including but not limited to:
  - i. Cryptographic proof of reserves
  - ii. Independently audited reserve accounts
  - iii. Segregated accounts
  - iv. Funds held in trust by third parties

The denomination of permissible reserves should be determined by the state regulator after consideration of the business model and risk at the institution. The determination could result in permissible investments that are like-kind, fiat, high quality liquid assets, or a combination thereof.

State regulators respect the different perspectives presented by commenters. Virtual currency is volatile and consumer funds must be protected, but for reserve purposes the volatility is

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<sup>13</sup> See

<http://mortgage.nationwidelicencingsystem.org/licensees/resources/LicenseeResources/NMLS%20Company%20Form.pdf>.

<sup>14</sup> For example, one commenter stated, “in order to maintain as much stability as possible in the virtual currency space at this point due to the extreme volatility of the virtual currencies themselves, all safety funds should be denominated in dollars.”

<sup>15</sup> Arguments in favor of like-kind reserves can be summed up by a commenter that addressed the issue in depth, stating “[i]f a licensee were deemed to have an outstanding money transmission obligation as a result of being entrusted with bitcoins for purposes of making them available at some later point, it seems that the value of a bitcoin in fiat currency would generally be irrelevant for purposes of quantifying the licensee’s money transmission obligations as the licensee would simply be obligated to make available the number of bitcoins entrusted to it, regardless of their market value.”



pegged when using a like kind store of value. Further, several virtual currency financial service companies have expanded their offerings in recent months to include seamless transfer of fiat currencies concurrent with virtual currency, complicating reserve requirements. Considering these policy arguments and business model developments, states should have flexibility for determining appropriate reserves.

When deciding risk profiles and other factors that drive permissible investment requirements, it is incumbent on the states to work together to ensure companies are treated consistently.

### Consumer Protection

Commenters all agreed that the Regulatory Framework should include consumer protections such as disclosures and notices, complaint resolution procedures, and receipt requirements. Many virtual currency companies stated that the customer profile of each licensed company should be considered when determining the scope of consumer protection. One commenter would like regulators to “consider the nature and customer type of each company that has been licensed. Companies that operate consumer-oriented businesses should, appropriately have extensive consumer protection obligations. Companies that are focused on enterprise clients should be subject to different requirements.” There was also an agreement among virtual currency companies that “clear consumer disclosures and notice of risks are important.”

CSBS made no changes to the consumer protection framework elements. Further, CSBS agrees that considerations for customer profile must be taken into account when determining appropriate consumer protections. However, a business plan focused on enterprise customers does not alleviate legal requirements to protect consumer customers, even if the consumer is not the licensee’s primary market.

### Cybersecurity - Audit

CSBS originally drafted a cybersecurity audit requirement, including a provision that the audit be performed by a third party. CSBS recognizes this can be costly and potentially premature for startups. CSBS also recognizes a third party audit is important for riskier institutions. Accordingly, the final framework was modified to provide more flexibility. A cybersecurity audit should be performed where necessary, and the risk profile of the institution should dictate whether it is appropriate for internal staff or a third party to perform the audit.

Cybersecurity audits are but one tool to mitigate cybersecurity risks faced by all financial institutions. State regulators believe a culture of cybersecurity awareness is necessary for all financial institutions, and expect all institutions to have policies, procedures, and controls in place to limit cyber risks.



### Cybersecurity – Cyber Risk Insurance

CSBS asked about the role of cyber risk insurance in risk management. There is widespread agreement that virtual currencies are uniquely vulnerable to cyber threats and that, at a minimum, cyber insurance should be encouraged. However, virtual currency companies argue that the market for cyber insurance is in its infancy and, as one commenter stated, it would be “grossly premature to require virtual currency licensees to insure all virtual currency assets against cyber risk.” CSBS has not included cyber insurance in the final framework, but encourages continued exploration of insurance and other market based risk management solutions. As the market for such cyber-risk management solutions continues to evolve, it may be appropriate for state regulators to consider such coverage in evaluating a firm’s overall cybersecurity protections.

### Compliance BSA/AML

Commenters all agreed that the anonymous nature of virtual currency transactions raises new challenges for detecting and monitoring fraud and other illegal activity. However, the commenters also agreed that existing federal BSA/AML policies are sufficient.

CSBS made one technical change to this section. To ensure there are no loopholes in the customer identification process, states should require verification of an entity’s service user, not only account holders. This technical change reflects the diverse use case for the block chain – an individual can use a virtual currency service to transfer money via the block chain, but not necessarily create an “account” with the virtual currency service provider. In this scenario, the individual should still be subject to the entity’s Customer Identification Program.

### Books and Records

Among the comments, there was general agreement that Virtual Currency companies should have periodic reporting requirements. Many of the Virtual Currency companies encouraged standardization among state reporting requirements. One virtual currency company asked that CSBS “encourage standardization among states of the substantive materials requested, the deadlines for submission, and the acceptable form of submission.” As mentioned above, the states are in the initial stages of developing an NMLS Money Services Business Call Report that CSBS anticipates will be a means for collecting periodic reports from state-licensed virtual currency companies. Development will include industry outreach.<sup>16</sup>

One key issue is the type of information reported. Some commenters argued that records for each transaction should be included in the reporting requirements, including “[a]s much

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<sup>16</sup> When addressing this issue, one virtual currency company stated “the compliance burdens of such regulatory reporting requirements can be mitigated through the more universal and standardized use of NMLS . . . .”



transaction information as possible (ID, form of transmission, amount, date, location, block chain information)” in order to perform trend analyses. One virtual currency company commented that “aggregated transaction values and volumes from dollars into bitcoin (and bitcoin into dollars) per state” should be collected. Based on these varied perspectives, CSBS urges flexibility depending on the company, usefulness of the information, and feasibility of efficiently transferring the information. Accordingly, transaction level data should be reported to the extent feasible.<sup>17</sup>

### Supervision

Comments regarding supervision were mainly aimed at preserving the status quo. Many virtual currency companies suggested that the framework apply “the same protections that are employed for traditional money transmitter models.”

There was significant attention paid to tools available to regulators in the case of the failure of a virtual currency company. A virtual currency company commented that regulators should “follow the same procedures as for resolving failed money transmitters.” Similarly, another commenter stated that adequate tools currently exist for dealing with distressed or failed companies.

To ensure that existing laws and regulations can be implemented in the event of failure, CSBS added a strength and stability component that policies and procedures be in place to protect customer access to funds in the event of failure. Entities that manage private keys for a public ledger risk losing customer funds if the private keys become unavailable upon failure. At a minimum, policies and procedures should cover how private keys are transferred or recovered in the event a licensee goes out of business.

### Access to Banking Services

There was agreement that Virtual Currency companies may face challenges obtaining bank accounts for transactional purposes. Further, commenters from different backgrounds agreed that risks vary depending on a potential virtual currency customer’s business model. Virtual currency companies agreed that applying blanket policies to all companies that utilize virtual currencies is an ineffective way to assess risk. One commenter urged CSBS to establish “bright line rules regarding regulated activity” to help with banking relationships. State regulators believe that banks must evaluate existing and potential customer relationships based on the risks particular to a given customer. One element of this inquiry is whether the customer is operating in compliance with state law, including state licensing laws.

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<sup>17</sup> The NMLS MSB Call Report should be a good vehicle to identify baseline information to be reported to the states. NMLS will engage industry as part of the development process to ensure reported information appropriately meets the needs of state regulators.





### Training & Education

Commenters generally agreed that training and education is important for regulators. All of the commenters agreed that it would be beneficial for regulators to understand cryptocurrency technology and the basics of how each type of currency operates. Understanding how a cryptocurrency is managed, created, and valued will facilitate appropriate regulation and supervision of companies utilizing virtual currencies. While not part of the framework, CSBS is committed to promoting regulator education and training in this area.

### Implementation

Traditional money transmitters and banks are concerned that additional requirements for companies utilizing virtual currency will trickle down and result in more regulations for all financial service providers. Additionally, many companies utilizing virtual currency fear a duplicative licensing system.

While the framework does not directly address these issues, CSBS notes that applying regulation and supervision to activities performed with virtual currency does not create new requirements for existing licensees that do not utilize virtual currency.



## MODEL REGULATORY FRAMEWORK

### Policy Statement

State regulators have determined that certain virtual currency activities raise concerns in the areas of consumer protection, marketplace stability, and law enforcement.

*Consumer Protection.* While virtual currencies and virtual currency business activities continue to evolve, many virtual currency services are clearly focused on consumer financial services. Such virtual currency service providers are in a position of trust with the consumer, which creates a public interest to ensure activities are performed as advertised with appropriate minimum standards to minimize risk to consumers.

*Market Stability.* Emerging virtual currency-based financial services are, in part, a response to consumer demands and consumer needs that may not be well met by existing payment systems. At the same time, virtual currency activities are not conducted in a vacuum; these activities connect to a variety of payment systems and market participants.

State regulators recognize the public interest in allowing these technologies to develop in a purposeful manner, providing clarity and certainty for implementation, and ensuring the stability of the larger financial marketplace. State banking and financial regulators have a responsibility for the overall health and strength of financial markets within their states. This responsibility includes articulating the rules of the road for businesses seeking to deploy new financial services that may not readily fit within existing statutory, regulatory, and/or supervisory regimes.

*Law Enforcement.* CSBS and its members agree it is imperative that financial services technologies are safe for consumers and transparent to law enforcement. Unfortunately, virtual currency, like other payments methods, has been a means for conducting illegal activity.<sup>18</sup> To support virtual currency innovation, regulation must be applied to ensure that new products promote commerce without subverting law enforcement and anti-money laundering objectives.

Licensing and supervision serve as a mechanism for protecting consumers, ensuring system stability, safeguarding market development, and assisting law enforcement. Accordingly, it is the position of CSBS that activities involving third party control of virtual currency, including for the purposes of transmitting, exchanging, holding, or otherwise controlling virtual currency,

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<sup>18</sup> See, e.g. Virtual Currencies, Emerging Regulatory, Law Enforcement, and Consumer Protection Challenges, Government Accountability Office report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate, GAO-14-496 (May 2014). Available at <http://www.gao.gov/assets/670/663677.pdf>.



should be subject to state licensure and supervision. CSBS has developed this model framework to support state efforts to regulate such activities.

### **Virtual Currency Defined**

Virtual Currency is a digital representation of value used as a medium of exchange, a unit of account, or a store of value, but does not have legal tender status as recognized by the United States Government. Virtual Currency does not include the software or protocols governing the transfer of the digital representation of value. Virtual Currency does not include stored value redeemable exclusively in goods or services limited to transactions involving a defined merchant. Virtual Currency does not include units of value that are issued in affinity or rewards programs and that cannot be redeemed for either fiat or virtual currencies. Virtual currency, as used in this framework, includes “digital currency” and “cryptocurrency.”

### **Covered Activities**

This model regulatory framework applies to activities involving third party control of virtual currency. At a minimum, this covers entities engaged in the following virtual currency activities when carried out on behalf of another:

- Transmission
- Exchanging:
  - Sovereign currency for virtual currency or virtual currency for sovereign currency
  - Virtual currency for virtual currency
- Services that facilitate the third-party exchange, storage, and/or transmission of virtual currency (e.g. wallets, vaults, kiosks, merchant-acquirers, and payment processors).

### **Exclusions**

Virtual currency activities outside of the covered activities described above are not covered by the policy statement or by the regulatory requirements discussed in this document. In particular, the Framework is not intended to cover:

- Merchants and consumers who use virtual currencies solely for the purchase or sale of goods or services;
- Activities that are not financial in nature but utilize technologies similar to those used by digital currency. For example, a cryptography-based distributed ledger system for non-financial recordkeeping would be outside the scope of this policy;
- Activities involving units of value that are issued in affinity or rewards programs and that cannot be redeemed for either fiat or virtual currencies; or
- Activities involving units of value that are used solely within online gaming platforms and have no market or application outside of those gaming platforms.



Activities performed by entities otherwise exempt from laws and regulations applicable to covered activities should remain exempt. Specifically, the model regulatory framework does not apply to depository institutions.

### **Regulatory Requirements**

State financial regulatory regimes applying to virtual currency activities should include:

1. **Licensing Requirements** – State licensing requirements for entities engaged in virtual currency activities must include:
  - a. Credentialing of business entity owners, directors, and key personnel
  - b. Details of the business entity’s business plan
  - c. Details on the banking arrangements of the business entity
2. **Use of Licensing Systems** – In order to efficiently and effectively process and evaluate license applications, it is important for states to utilize a robust licensing system that enables states to share licensing and enforcement data in real time. The Nationwide Multistate Licensing System (NMLS) is one such system, with the ability to streamline all technical aspects of licensing, including application processing, background check processing, reporting, and complaint management.
3. **Financial Strength and Stability** – To protect consumers and promote market stability, it is important that virtual currency companies, like other regulated financial services companies, show sufficient financial strength to maintain sound operations and to protect consumers/customers should the company experience financial distress. To accomplish this, state regulatory requirements for licensed virtual currency companies should include the following:
  - a. Net worth or capital requirements, with flexibility for the Commissioner to set requirements based on activities and volume
  - b. Permissible investment reserves in the form of cash, virtual currency, or high-quality, highly liquid, investment-grade assets, in such proportions as are acceptable to the state.
  - c. Acceptable methods of reserve to be determined by the Commissioner, including but not limited to:
    - i. Cryptographic proof of reserves
    - ii. Independently audited reserve accounts
    - iii. Segregated accounts
    - iv. Funds held in trust by third parties
  - d. Surety bond requirement, with flexibility for the Commissioner to determine amount based on business model and activity levels, not number of locations



- e. Information on method of calculating value of virtual currency
  - f. Policies, procedures, and documentation for disaster recovery, emergency preparedness plans, and customer access to funds in the event of failure
4. Consumer Protection
- a. Required consumer protection policies and documentation of such policies
  - b. Holding an actual amount of virtual currency in trust for customers and ensuring that amount is identifiable separately from any other customer or virtual currency business entity holdings
  - c. Required policies and documentation of complaints and error resolution
  - d. Required receipt to consumers with disclosures regarding exchange rates
  - e. Required disclosures to consumers about risks that are particular to virtual currency
  - f. Required disclosure of virtual currency insurance coverage, which at a minimum includes notice that virtual currency is not insured or otherwise guaranteed against loss by any governmental agency
  - g. Public disclosure of licensing information and agency contact information
5. Cyber Security
- a. Required cyber security program and policies and procedures
  - b. Customer notification and reporting requirements for cyber security events
  - c. Where necessary, cyber security audit requirements, with flexibility for the Commissioner to determine the appropriate level of the audit based on business model and activity levels
6. Compliance (General)
- a. Compliance with federal and state laws (including Electronic Funds Transfer Act and Bank Secrecy Act)
  - b. Required designated compliance officer
  - c. Required written compliance policies and procedures and regulator access to such policies and procedures
7. Bank Secrecy Act/Anti-Money Laundering
- a. Required implementation and compliance with BSA/AML policies, including documentation of such policies
  - b. Required compliance with applicable federal BSA/AML laws and recognition of state examination and enforcement authority of BSA/AML laws
  - c. Verification of service user identity
8. Books and Records
- a. Required access to books and records by regulatory authorities
  - b. Commissioner to determine form and format of books and records production



- c. Audited financial statements consistent with generally accepted accounting principles (“GAAP”) as recognized in the United States, with flexibility for the Commissioner with regard to compliance timeline
- d. Transaction volume
- e. To the extent practicable, transaction-level data, including, but not limited to:
  - i. Names, addresses, and IP addresses of parties to transaction
  - ii. Identifiable information of virtual currency owner
  - iii. Transaction confirmation
  - iv. For foreign transactions, country of destination
- f. Agent lists and information regarding agents’ compliance with applicable state and federal laws and rules, including policies and procedures
- g. Commissioner to have authority to require periodic reports and to determine frequency and information to be contained therein, including:
  - i. Annual reports
  - ii. Quarterly reports
  - iii. Reports of condition
  - iv. Reports of material change
- h. Applicability of state escheatment laws

9. Supervision

- a. Facilitating and supporting regulatory cooperation and information sharing with other state and federal regulators
  - i. Authority to consult and coordinate
  - ii. Authority to conduct joint or concurrent examinations
  - iii. Authority to use and adopt reports of examination prepared by other state and federal regulators
  - iv. Preserving confidentiality of regulatory information by exempting regulatory information from state public records disclosure laws
  - v. Preserving confidentiality and privilege protections applied to shared information
- b. Investigative subpoena authority
- c. Authority to initiate enforcement actions, including:
  - i. Formal or informal actions
  - ii. Removal of officers and directors
  - iii. Impose civil money penalties
  - iv. Authority to take control
  - v. Authority to appoint a receiver