

Via E-Mail

May 4, 2017

Uniform Law Commission
Drafting Committee on Regulation of Virtual Currency Businesses
Attn: Fred Miller, Chair
Sarah Jane Hughes, Reporter
111 N. Wabash Ave., Suite 1010
Chicago, IL 60602

RE: Coinbase Second Comment Letter, Regulation of Virtual Currency Businesses Act

Dear Drafting Committee:

This second comment letter is submitted on behalf of Coinbase, Inc. (“**Coinbase**”) in response to the draft Regulation of Virtual Currency Business Act (the “**Model Act**”) released in advance of the May 4-7 Style Committee Meeting and published by the Drafting Committee on Regulation of Virtual Currency Businesses (the “**Drafting Committee**”). Coinbase is the world’s leading retail virtual currency exchange and hosted wallet service. Headquartered in San Francisco, our management and employees are devoted to providing reliable, safe, and convenient virtual currency wallet and exchange services to over five million account holders globally. In the United States, Coinbase is licensed to engage in money transmission in thirty-eight jurisdictions and we are one of only three companies authorized to engage in virtual currency business activity pursuant to New York’s bitlicense. We thank the Drafting Committee for its continuing effort to develop a model regulatory structure for virtual currency businesses and for adopting many of the suggestions offered by Coinbase and other commentators.

We have one principal concern with the latest draft of the Model Act: its wholesale adoption of UCC Article 8 provisions in lieu of simpler full-backing, permissible investment obligations *already employed by states which regulate virtual currency businesses as a fundamental consumer safeguard*.

As stated in our letter to the Drafting Committee dated February 28, 2017, the Model Act should adopt a conventional permissible investment requirement that obligates licensees to maintain, in trust for customer benefit, an amount of virtual currency in like kind, quantity, and equivalent market value to the underlying customer liability. As noted in our letter, this approach has been successfully adopted through New York’s bitlicense and recently by statute in Washington and North Carolina.¹ The resulting obligation is simple and effective, consistent with the favored

¹ See Bitlicense at 23 NYCRR 200.9(b); Washington State Substitute Senate Bill 5031, signed into law on April 17, 2017 (amending Washington’s money transmitter law to apply to virtual currency businesses and requiring licensees to “hold like-kind virtual currencies of the same volume as that held by the licensee but which is obligated to consumers in lieu of [other assets satisfying statutory permissible investments

approach among state policymakers, and will operate to safeguard customer funds in a manner entirely consistent with the analogue money transmission construct. We see no reason to push the envelope further at this early stage of development in virtual currency policy and law.

The Model Act, however, goes far beyond the simple permissible investments construct and requires licensees to opt into a UCC Article 8 scheme. This approach invokes a distinct body of law not well-developed in our field, will complicate future application of prevailing consumer financial protection laws that may come to bear on retail virtual currency businesses, and does not appear to enhance the fundamental obligations Coinbase and similar licensees already owe to their customers.² We encourage wider discussion, study, and debate on this important topic, and we urge the Drafting Committee to amend the Model Act as we proposed in our February 28 letter.

Thank you for your attention and we are happy to respond to any questions or concerns you may have.

Sincerely,



Mike Lempres
Chief Legal & Risk Officer,
Coinbase, San Francisco CA
mike.lempres@coinbase.com

Juan Suarez
VP, Head of Legal,
Coinbase, San Francisco, CA
juan@coinbase.com

classification]”; North Carolina Money Transmitters Act § 53-208.42(17) (obligating licensees to fully back customer liabilities with permissible investments, and defining “permissible investments” as “[o]ne or more of the following . . . (i.) Virtual currency owned by the licensee, but only to the extent of outstanding transmission obligations received by the licensee in like-kind virtual currency.”).

² For example, Coinbase is already required to and does (i) maintain sufficient financial assets to satisfy customer liabilities, (ii) comply with its customers’ transfer or redemption instructions, and (iii) transfer customer assets to another custodial provider and licensee if so instructed by the customer. Coinbase customers may directly enforce these rights through private rights of action arising under conventional contract and common law theories, among other avenues.