Via E-Mail

February 28, 2017

Uniform Law Commission
Drafting Committee on Regulation of Virtual Currency Businesses
Attn: Lucy Grelle, Publications Manager
Katie Robinson, Legislative Program Director & Comms Officers
111 N. Wabash Ave., Suite 1010
Chicago, IL 60602

RE: Coinbase Comments to Regulation of Virtual Currency Businesses Act

Dear Drafting Committee:

This comment letter is submitted on behalf of Coinbase, Inc. ("Coinbase") in response to the draft Regulation of Virtual Currency Business Act (the “Model Act”) published by the Drafting Committee on Regulation of Virtual Currency Businesses (the “Drafting Committee”) on February 15, 2017. 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 thoughtful effort to develop a model regulatory structure for virtual currency businesses. We believe the Model Act will succeed if it can offer legal in certainty to operators, implement practicable consumer protection measures, and avoid ambiguity and premature compliance burdens that may stifle the development of this promising Internet technology. With those aims in mind, we hope to offer a useful and practical perspective to the Drafting Committee.

SUMMARY

We understand the Model Act’s intention is “to govern persons hold[ing] themselves out as providing services to a holder of virtual currency comparable to service that would be deemed ‘money transmission’ under the Uniform Money Services Act or other state ‘money transmission’ statutes . . . [and thus] to regulate that person in a manner that affords suitable licensure, supervision, and user protections.” See reporter’s notes on section 103. The regulatory structure proposed under the Model Act, therefore, is purposefully comparable to the Uniform Money Services Act (“UMSA”) and corresponding state money transmitter legislation.
We agree conceptually with the Drafting Committee’s approach because the core virtual currency business services covered under the Model Act—exchange, transfer, and storage—contemplate business models and attendant consumer risks that are most comparable to modern money transmitters. By way of contrast, the Model Act sensibly does not adopt a bank charter-styled structure because traditional banking services—deposit taking, checking, and fractional reserve lending—present substantially different business models and risks than those posed by fully-reserved virtual currency businesses operating today.

Coinbase, therefore, has two goals in submitting this comment letter. First, we intend to reinforce the Committee’s structural design choice by promoting the adoption of policies and resolution of certain ambiguities that will facilitate the Model Act’s service as an obvious and natural extension of existing money transmission regimes for those states which choose to adopt it. Second, and related, we intend to more closely fit the Model Act to the Drafting Committee’s charge to craft a regulatory scheme that would facilitate innovation among nimble, venture-backed fintech startups. Based on our own experience as one such company, we fear some provisions of the draft Model Act may burden emerging businesses with stiff operating costs and legal ambiguity, and may open the door to fragmentation of state laws antithetical to the Act’s purpose.

To summarize our recommendations:

First, the Model Act should allow licensed money transmitters to qualify for exemption under the Model Act;

Second, the Model Act should adopt a conventional permissible investment requirement that obligations licensees to maintain, in trust for customer benefit, the full market value of the their outstanding virtual currency business obligations, and should further allow licensees to satisfy this requirement by holding virtual currency in like kind and quantity to customer obligations;

Third, Minimum net worth requirements under the Model Act should be optional for adoption by the states and the optional requirement should be stated as a defined range, not as a percentage of the licensee’s customer obligations; and

Fourth, the Drafting Committee should defer, at this time, on the question of application of UCC Article 8 to virtual currency.

COINBASE COMMENTS

1. Licensed Money Transmitters Should Qualify for Exemption under the Act

The Drafting Committee states is has not finally decided whether to require intrastate dual license for businesses engaged in both virtual currency business activity, as defined in the
Model Act, and money services or money transmission activity. See reporter’s notes to section 103. The Act should **not** require dual licensure for such entities.

**First,** many companies that engage in virtual currency business activity will offer products that would appear to qualify for licensure under existing money transmission laws. This ambiguity results from the overlap of closely interrelated concepts contemplated in both regulatory regimes.

The draft Model Act defines “virtual currency” to mean: a digital representation of value that: (1) is used as a medium of exchange, unit of account, or store of value, and (2) is not legal tender—i.e. *not* the coin or paper money of the U.S., and (3) is not among the enumerated exemptions. See Model Act, section 102(23). Services which exchange, transfer, or store virtual currency are therefore required to license under the Act.

The UMSA, on the other hand, purposefully includes within its scope providers of certain electronic and cyber payment mechanisms which are *not* “money” in the traditional sense but which are viewed to pose the same safety and soundness concerns as conventional money transmitters. See UMSA, Prefatory Note, section D. The UMSA jurisdictional hook lies in its broad definitions of “monetary value”—a medium of exchange, whether or not redeemable in money—and “stored value”—monetary value that is evidenced by an electronic record. See UMSA section 102 (11) and (21) (emphasis added). These definitions are intentionally broad and flexible “to allow regulators to deal with emerging forms of monetary value and Internet ‘script’ on a case-by-case basis.” See UMSA section 102, Comment 10.¹

It is evident to us that this “flexible” definition of monetary value easily encompasses concepts—and therefore service providers—who would also fall within the scope of the Model Act. In fact, many states which have adopted this or similar terminology in their respective money transmission statutes **already regulate virtual currency business wallets and exchanges under their existing money transmission regime.**² If the Model Act is adopted in its current form

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¹ Examples of “Non-money” service providers regulated under the UMSA may include providers of computer-based token or notational systems which serve as cash substitutes for Internet transactions ("E-money") and/or providers of value that may be exchanged over the Internet which may not be redeemable for money ("Script"). See UMSA Prefatory Note, sections D(2) and (3). The comments further explain that the term “medium of exchange” connotes value that is exchanged and accepted by a community and is not necessarily legal tender. A nascent medium may not be a medium of exchange when first introduced, but might evolve into a more commonly accepted form of payment and would then become a medium of exchange whose attendant service providers are eligible for licensure under the UMSA. See UMSA section 102, Comment 10.

² To Coinbase’s understanding, these include Washington, Connecticut, North Carolina (whose money transmission statute was recently amended to include virtual currency, with widespread support of industry), New Hampshire, Florida, Ohio, Wyoming, and Hawaii. Coinbase has found most—but not all—regulators adopting this approach to exhibit a prudent caution. Much of the impact of these policies has been initially to inform supplemental customer disclosures, state reporting obligations, fee
without exemption for money transmission licensees, these overlapping regulatory structures will lead to confusion among existing licensees and their regulators who will need to undertake a comprehensive, costly, and likely normative analysis to characterize various products as falling into one or the other regulatory regime. The same uncertainty will cascade across commercial relationships where licensees seek to explain their businesses to potential partners performing diligence, as well as to ensure they themselves are not engaged in potential partnerships which may facilitate unlicensed activity. While this likely will be a difficult enough task where one licensing regimes applies, adding a second without exemption will, given the uncertainty surrounding the characterization of certain activities, add avoidable legal complexity to every new business line, product, and partnership contemplated by either virtual currency businesses, money transmitters, or both.

Second, even setting aside this conceptual challenge, the core premise of the Model Act—to regulate virtual currency businesses in a manner that is comparable to money transmitters—leads to substantial overlap in form, function, and procedure for “dual” licensees. For example, an entity engaged in both virtual currency business activity and money transmission we understand will be subject to the following duplicative obligations:

- File separate but similar applications for a the virtual currency business license and a money transmission license;
- Provide biographical and fingerprinting information for the same subset of personnel (in most states);
- Acquire a surety bond, letter of credit, or similar security for the virtual currency license for a money transmission license;
- Meet the (vague) net worth requirements under the Model Act and any which may exist under the state money transmission laws;
- Maintain separate Permissible Investment obligations for the same business;
- Meet separate reporting obligations for the same business;

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3 The Reporter’s Notes on section 102 argue that the Act's definition of virtual currency is distinct from E-money because the latter is a digital representation of fiat currency used to electronically transfer value denominated in fiat currency. We cannot easily distinguish between the reporter’s (inflexible) articulation of E-money, on the one hand, and a medium of exchange which is not legal tender but which is denominated in U.S. Dollars, on the other—i.e. Virtual Currency by the Committee’s own designation. See Id. at p.7. In other words, exclusion of “Legal Tender” from the Model Act’s definition of Virtual Currency does not, in our view, operate to draw a clear line between money transmission activity and virtual currency business activity.
● Be subjected to separate examinations for the same business; and

● Report and consult on material business developments with potentially two sets of responsible regulatory authorities.

Undoubtedly there is opportunity for cross-satisfaction of many duplicative requirements, but we believe many states will prefer to address the inherent duplicity, inefficiency, redundancy, and ambiguity arising out of two sister licensing structures by simply amending or adopting the existing money transmission construct where feasible. The Drafting Committee can preempt much of this potential redundancy by simply exempting from the Model Act licensed money transmitters who are authorized by the respective banking departments to engage in Virtual Currency Business Activity. Banking departments can require money transmitters, as a condition of such authorization, to adhere to additional safeguards the department may see fit to impose.

It is important to note that a money transmitter exemption will not undercut the potential utility and impact of the Model Act. Many states which have not adopted the “flexible” UMSA approach employ money transmission regimes which are more narrowly focused and which have been interpreted not to apply to virtual currency businesses. As a matter of policy, these states may wish to continue to limit the application of their statutes to activities involving legal tender. As the virtual currency economy grows, these states may determine that a new regulatory structure, such as the Model Act, is appropriate to fill the void. In addition, those states which do have the flexibility or desire to regulate virtual currency under existing money transmission statutes may look to the Model Act for guidance in identifying the business activities which warrant inclusion under their regulatory schemes, the risks that scheme is intended to address, and additional compliance obligations in line with the Model Committee’s considered recommendations.

**Coinbase Recommendation #1:** Amend Section 103 (scope) to add an exemption for entities licensed under the state’s money services act and authorized by the department to engage in virtual currency business activity. Amend Section 703 (saving and transitional provisions) to accommodate approval of licensed money transmitters to engage in virtual currency business activity. See Appendix.

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4 See, e.g., Regulatory Treatment of Virtual Currencies Under the Texas Money Services Act, Texas Department of Banking, Supervisory Memorandum, dated April 3, 2014 (stating that the Texas Money Services Act does not apply to virtual currency because it is not “money or monetary value,” which under Texas law relates specifically to “the coin and paper money of the United States . . .”); See also, Regulatory Treatment of Virtual Currencies Under the Kansas Money Transmitter Act, Memorandum of the Kansas Office of the State Bank Commissioner, dated June 6, 2016 (similar conclusion, but relying on Black’s Law Dictionary definition of "money" to mean a "medium of exchange authorized or adopted by a government as part of its currency").
2. **Custodial Assets Should Be Fully Backed By Permissible Investments, Including Like-Kind Virtual Currency.**

A priority of the Model Act is to guarantee the integrity of custodial operations—\textit{i.e.} services which involve taking “custody or control” of virtual currency on behalf of customers. Core to this aim is establishing that the licensee will have the liquidity necessary to fulfill all of its outstanding money transmission obligations owed to consumers. The latest draft of the Model Act appears to address \textit{indirectly} this critical liquidity issue through a combination of its incipient minimum net worth and minimum capital requirements (section 209), permissible investments requirements (section 210), and statements purporting to establish the respective property interests of the licensee, its customers, and the licensee’s creditors (section 503). We believe a simpler solution, which has already been adopted by several states, is to implement a full-reserve permissible investments obligation which can be satisfied through holding virtual currency in identical kind and quantity to the customer liability.

A strong analogy lies in the custodial operations of money transmitters. The UMSA states:

\begin{quote}
A licensee shall maintain at all times permissible investments that have a market value computed in accordance with generally accepted accounting principles of not less than the aggregate amount of all of its outstanding payment instruments and stored value obligations issued or sold in all states and money transmitted from all states.
\end{quote}

See USMA Section 701. Nearly all states have adopted similar provisions under their respective money transmitter statutes. Money transmitters are therefore generally required to maintain permissible investments in an amount equal to their outstanding money transmission obligations—\textit{i.e.} for each dollar of value that a licensee receives from a customer, it is obligated to maintain a dollar of value, either in cash or in one of the other items specified as “permissible investments” under the relevant act. This obligation guarantees full reserve and availability of customer funds more completely than any other tool contemplated in the Model Act and is very easily adapted for the virtual currency context. In short: policymakers should, and in fact do, (\textit{i}) require virtual currency custodians to maintain permissible investments that have a market value not less than the value of virtual currency obligated to customers, (\textit{ii}) allow the permissible investment requirement to be fully satisfied by holding virtual currency of the same type and amount as that which is obligated to customers, and (\textit{iii}) make clear that permissible investments are held in trust for the benefit of the licensee’s customers in the event of bankruptcy or receivership of the licensee.

This approach has a few obvious advantages. \textbf{First}, it guarantees full customer reserves far more efficiently than net worth or bonding requirements, neither of which is intended for this purpose. A policy favoring permissible investments allows the Model Act to avoid myriad logistical difficulties that arise if net worth, for example, is linked to the value of customer assets in custody (see discussion below). \textbf{Second}, and related, it allows licensees to hold assets that match its customer liabilities perfectly and reduces the consumer risk that would arise in holding
alternate backing assets which are not synchronous to the customer liability. If, for example, a licensee has an obligation to make an amount of bitcoin available to its customer, the most prudent way to ensure the licensee can fulfill such obligation is to impose a permissible investment requirement of such obligated amount of bitcoin. Any alternative would expose either the licensee or the customer, or both, to undesired exchange rate risk. And Third, the policy of requiring in-kind, one-for-one, virtual currency as permissible investments against virtual currency-denominated liabilities—no more no less—appears to have been adopted successfully by all of the states where Coinbase has obtained a money transmission license or a similar license, and where such license covers virtual currency activity.\(^5\)

It is puzzling that the draft Model Act omits this basic obligation.\(^6\) The reporter’s notes to Section 207 to 210 indicate the Drafting Committee’s apparent view that states should “have the option of choosing between a combination of security, net worth and permissible investment requirements as prudential measures for licensees.” Although we generally agree with a deferential approach, the Drafting Committee should not defer on fundamental, structural questions which affect the core capital structure and relationship of virtual currency custodians vis-a-vis their customers. A lack of clarity and guidance on the basic issue of customer reserves will substantially impede the effectiveness of the Model Act in coordinating a uniform approach across the states. Moreover, any alternative policy which disallows like-for-like permissible investments imposes an unreasonable capital obligation that no virtual currency business can reasonably expect to meet, which is to say nothing of a venture-backed, startup business.

Coinbase Recommendation \#2: Amend section 210 of the Model Act (maintenance of permissible investments) to require licensees and provisional registrants to hold, in trust, for the benefit of customers, permissible investments that have a market value of not less than the aggregate amount of outstanding virtual currency obligations. Further amend that same section to allow licensees to satisfy this obligation by holding 100% of permissible investments in the same type and amount obligated to customers. See Appendix.

\(^5\) These include New York (see Bitlicense at 23 NYCRR 200.9(b)) and Washington state, among others. Notably, neither Coinbase nor, to our knowledge, any other virtual currency business operates in two states, Wyoming and Hawaii, which have favored an alternative policy that requires virtual currency businesses to back virtual currency liabilities with some additional value in the form of conventional permissible investments (like cash) under state law.

\(^6\) Section 210 (maintenance of permissible investments) states that licensees must maintain “[i]n addition to its obligations under Section 503 . . . permissible investments in a value that complies with Section 209.” Section 209 (net worth and minimum capital requirements; permissible investments), at subpart (d) describes certain asset types which may qualify as permissible investments under the Model Act, but that section does not clarify the value of permissible investments the Model Act will require licensees to maintain. And Section 503 contemplates alternative legal concepts establishing that custodial virtual currency is held for the “entitlement” of and as property belonging to customers, but makes no mention of permissible investment obligations.
3. **Net Worth Requirements Should Be Optional, And Not Linked to Asset Value.**

The draft Model Act imposes a minimum net worth requirement as follows:

[A] licensee shall provide evidence to the department of and maintain a minimum net worth of $[35,000] or [two to five] per cent of its proposed virtual currency business activity with residents of this state, to ensure ongoing business operations and sufficient reserves for winding down operations . . .

See section 209(a). In other words, it appears the Model Act is currently drafted (i) to include obligatory net worth requirements (apparently in lieu of obligatory, comprehensive permissible investment requirements) which (ii) are calculated by reference either to a flat dollar minimum ($35,000) or as a percentage of proposed virtual currency business operations (two to five per cent). Each concept, we believe, is fundamentally flawed.

**First,** the uniform approach should not obligate states to impose minimum net worth requirements. Wide-ranging prudential operational concerns contemplated by the net worth requirement are addressable through many different protective measures available under the uniform approach. See Model Act reporter’s note to Sections 207 to 210; 2004 Uniform Money Services Act (“UMSA”) comments to Sections 204 and 207 (referring to bonding, security obligations, letters of credit and other form of collateral, net worth requirements, and permissible investments obligations as a means generally to ensure that a licensee has sufficient resources to honor its obligations to customers, to deter financially unstable applicants, and to ensure that licensees have necessary resources to commence and operate a licensed business). With the exception of Permissible Investments obligations—which are hard-wired into the UMSA for the reasons discussed above—the National Conference of Commissioners on Uniform State Laws has generally seen fit to defer to states’ own policy discretion in choosing among the “menu of options” available to balance the goals of safety and soundness against the fiscal needs, concerns, and practical marketplace realities in any given jurisdiction. We see no reason for the

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7 Section 209(b)(2) states a “licensee may demonstrate that it has sufficient net worth to continue to operate and wind down its operations if it provides the department descriptions of” corporate structure, asset accounting, funds flows, and business growth and financing plans, among others. It is unclear whether this provision is intended as an alternative to the above-described net worth requirement. We recommend the Drafting Committee clarify its intention with revised language.

8 See UMSA section 207, comment 2 (net worth requirement is optional because “some [s]tates use net worth as part of the safety and soundness mechanisms whereas other States rely on bonding/security and permissible investment requirements instead”); UMSA prefatory note, section C(4) (referring to a “menu of options” presented within the uniform framework and observing that “[s]tates will retain discretion with respect to important issues such as licensing fees and bonding and net worth requirements”; UMSA section 204, committee comment (“[t]his Act, and Section 204, attempt a balance between the goals of safety and soundness and providing open access to businesses that wish to enter the money transmission market, recognizing that decisions as to the final dollar amounts will need to reflect the particular fiscal needs and concerns of different States).
Drafting Committee to abandon this considered approach. To the contrary, the nascency of the virtual currency industry and the broad scope of business activity which may come to fall within the scope of the Model Act militates in favor of preserving as flexible an approach as possible.

**Second**, should the Model Act recommend any particular form of net worth requirement at all, the requirement should be cabined within a defined dollar-value range and not stated as an uncapped percentage of the licensee's actual or proposed business activity in the state. State banking departments may, of course, refer to the size, scope, and perceived risk of the licensee’s business in determining the net worth within a bounded range, but the Drafting Committee should ensure that licensees are never left with unlimited, and potentially unpredictable, artificial capital demands which return no practical consumer benefit.

An uncapped, scaling net worth requirement bears no direct relation to revenue, profit, or operating costs. This disconnect is especially acute for custodians whose costs (and revenue) of operating a secure virtual currency platform do not scale with the value of virtual currency. Coinbase, for example, has invested heavily and will continue to invest heavily in its virtual currency storage techniques, access controls, security protocols, employee screening, and so on to ensure the security of virtual currency assets under our control. The costs of maintaining this security apparatus to do not change, however, in proportion to the number or value of virtual currency held on our platform. Linking a net worth requirement to value of assets in custody therefore seems ill suited to addressing the prudential operational concerns underlying net worth requirements.\(^9\)

Further, the percentage net worth requirement poses an untenable capital demand for any non-bank custodial business, especially for new entrants to the market. The plain truth is that it would be very difficult, if not impossible, for startups to attract investment with the serious prospect of capital inefficient net worth requirements. The artificial financial burden this policy poses would inhibit innovation and would restrict market entry or growth of companies seeking to find compliant ways to offer virtual currency-based financial services.\(^10\) We note reference in the reporter's notes to capital ratios established for banks under the Basel accords. The substantially different circumstance of a bank owning a deposit and engaging in lending on the basis of fractional reserve accounting warrants very different prudential measures, such as strict credit underwriting and risk procedures and minimum capital ratios. For a virtual currency

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\(^9\) For example, changes in either the quantity of customer assets or the value of customer assets would require constant reevaluation and recapitalization of the business. For a company that holds virtual currency assets whose price is subject to substantial change, this capital requirement can become extremely unwieldy extremely quickly. See, e.g., the market price of bitcoin, which has ranged in value from around $420 to over $1,000 in the past year alone.

\(^10\) We also note the policy may have an unintended consequence. If demanding net worth requirements for lawfully operating custodians like Coinbase forces those businesses to defray costs by charging customers to store virtual currency on platform, it is very possible (if not likely) that many customers would simply transfer virtual currency to unregulated, offshore providers who are not held to similar standards and who avoid similar compliance costs.
business which maintains full reserve of virtual currency, capital ratios and/or unlimited scaling capital requirements are fundamentally inappropriate. The Model Act should foreclose outcomes that would implement immediate and potentially severe harms on fintech companies with no practical, commensurate consumer benefit.

**Coinbase Recommendation #3:** Amend section 209 (net worth requirement) to be optionally available to state legislatures. Further amend the section so that the optional requirement is stated as a range—e.g. $35,00 to $1,000,000—and not as a minimum or as a percentage of business activity. See Appendix.

4. **The Model Act Should Defer On UCC Guidance**

We understand the Drafting Committee is considering whether to graft UCC Article 8 rules into the Model Act, the apparent effect of which is to create a “security entitlement” property right in virtual currency held by licensees under the Act. We understand one important benefit of this classification is that it may allow creditors of virtual currency business customers to more easily take an unambiguously perfectable security interest in the customers’ assets. This benefit, in turn, could facilitate virtual currency commerce.

Although we encourage further discussion of this important topic, we agree with a commentator’s observation that inclusion of UCC provisions in the Model Act is likely to complicate the adoption of this text into law and may give rise to unintended consequences under state and federal laws involving bankruptcy and secured creditor relationships. We also note that the implementation of the permissible investments policy described above would adopt the settled approach established by the National Conference, and most state legislatures, with respect to the potential bankruptcy of money transmitters—i.e., to require licensees to hold customer assets in trust for the benefit of customers. This solution would appear to address the Drafting Committee’s concern with outcomes in bankruptcy without the added complexities necessary to fully flesh out the UCC impact.
CONCLUSION

In closing, we understand the difficulty faced by the Drafting Committee in developing a framework for the regulation of Virtual Currencies in a manner which takes into account the importance of encouraging innovation, interrelated legal structures, and other concerns involved. Coinbase is committed to collaborating with and assisting the Committee and other authorities in their efforts to regulate virtual currency business activity, and we are happy to answer questions or concerns regarding this comment letter.

Sincerely,

[Signature]

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## APPENDIX

<table>
<thead>
<tr>
<th>Dual Licensure</th>
<th>Current Draft Model Act Language</th>
<th>Coinbase Proposal</th>
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<tbody>
<tr>
<td><strong>Section 103. Scope</strong></td>
<td>103(b) this [act] does not apply to the exchange, transfer, or storage of virtual currency or to virtual currency administration to the extent that the activity is governed by . . .</td>
<td>[same text; add the following]</td>
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<td>103(b) (13) a person who is licensed under the [name of state’s existing Money Services or Money Transmitter Act] and who has received approval from the [state banking department] to engage in virtual currency business activity.</td>
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<td>**Section 703(a). Saving and</td>
<td>703(a) A license issued under [name of state’s existing Money Services Act or Money Transmitter Act] that is in effect immediately before the effective date of this [act] remains in effect as a license for its purposes for its duration unless revoked or suspended by the department. A licensee under [name of state’s existing Money Services or Money Transmitter Act] that does not intend to engage in virtual currency business activity under this [act] is not required to inform the department of its intention.</td>
<td>703(a) A license issued under [name of state’s existing Money Services Act or Money Transmitter Act] that is in effect immediately before the effective date of this [act] remains in effect as a license for its purposes for its duration unless revoked or suspended by the department. A licensee under [name of state’s existing Money Services or Money Transmitter Act] that does not intend to engage in virtual currency business activity under this [act] is not required to inform the department of its intention. A licensee under [name of state’s existing Money Services or Money Transmitter Act] that does intend to engage in virtual currency business activity must notify the department of its intention and must satisfy additional requirements for virtual currency businesses as the department may require.</td>
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<td>Transitional Provisions.</td>
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<td>**Section 703(c). Saving and</td>
<td>703(c) This [act] applies to virtual currency business activity with residents of this state on or after the effective date of the [act]. A person engaged in virtual currency business activity after the effective date of this [act] that does not hold a license issued or recognized under this [act],</td>
<td>703(c) This [act] applies to virtual currency business activity with residents of this state on or after the effective date of the [act]. A person engaged in virtual currency business activity after the effective date of this [act] that does not hold a license issued or recognized under this [act], that is not exempt from this</td>
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<td>Transitional Provisions.</td>
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that is not exempt from this [act], and that has not applied for a license or filed a provisional registration under this [act], including a person that has obtained a license under the [Money Services Act or Money Transmitter Act of this state whether or not that act covers virtual currency business activity] [or a person that holds a charter as a trust company from this state] is deemed to be conducting unlicensed virtual currency business activity in this state in violation of this [act].

[act], and that has not applied for a license or filed a provisional registration under this [act], including a person that has obtained a license under the [Money Services Act or Money Transmitter Act of this state whether or not that act covers virtual currency business activity] or that is not a licensee under the [Money Services Act or Money Transmitter of this state] and who has not obtained authorization from the department to engage in virtual currency business activity, [or a person that holds a charter as a trust company from this state] is deemed to be conducting unlicensed virtual currency business activity in this state in violation of this [act].

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<th>Permissible Investments</th>
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<tr>
<td><strong>Section 210(a): Maintenance of Permissible Investments.</strong></td>
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<tr>
<td>210(a) In addition to its obligations under Section 503 of this [act], a licensee or provisional registrant shall maintain its permissible investments in a value that complies with Section 209. The value must be recomputed at the end of each three calendar months.</td>
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<td>210(a) In addition to its obligations under Section 503 of this [act], a licensee or provisional registrant shall maintain at all times its permissible investments in a value that complies with Section 209. The value must be recomputed at the end of each three calendar months computed in accordance with generally accepted accounting principles of not less than the aggregate amount of all of its outstanding virtual currency business obligations in all states.</td>
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<td>210(b) The department by regulation may: (1) limit the extent to which a type of investment within a class of permissible investments may be considered a permissible investment, except for legal tender and certificates of deposit issued by an insured bank, but shall allow the licensee to hold a [percentage to be determined] of its permissible investments in the type or types of</td>
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<td>Section 210(c) [Proposed]: Maintenance of Permissible Investments.</td>
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<td>Net Worth</td>
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<td>UCC</td>
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