

From: Bryan Bishop <[REDACTED]>
To: Jeremy Rubin <[REDACTED]>, Bryan Bishop <[REDACTED]>
Cc: Jeffrey Epstein <jeevacation@gmail.com>, Joichi Ito <[REDACTED]>
Subject: Re: CFTC to regulate bitcoin
Date: Thu, 12 Nov 2015 17:29:05 +0000

Jeremy, thank you for the email. Joi -- always a pleasure to run into you in every context. And it is nice to meet Jeffrey-- I noticed on your Wikipedia article that you and I share Ben Goertzel in common, wasn't expecting to see him around these parts..... He and I share many motivations and beliefs about the future...

The open letter, that Jeremy mentions, is still in progress, but we've drafted some explanatory text that we're going to be sending around to the other Bitcoin Core developers shortly. Please consider this explanatory text to be private, but I would absolutely love to hear your feedback and thoughts on the approach here. We are pretty close to the "end" here and it's very exciting. The explanatory email is as follows-- and please keep this confidential.

We are writing this to you, confidentially, to explain why we have been inviting people to edit, provide feedback and sign a proposed open letter from Bitcoin Core developers about a "currency-not-database" statement. The draft can be found here, which we explain below: <https://docs.google.com/document/d/1GpcLG-9PrK8Z6ZPI0Q-u1VDBQc7qlhOXvNiCmjHkDSg>

While bitcoin the currency could continue to grow without correction of the significant, misdirected hype of blockchains-not-bitcoin from the finance industry, an explicit clarification and statement from Bitcoin Core developers as to the purpose of Bitcoin Core and which of bitcoin's applications will most impact the world would be an excellent use of the following opportunity to fix how mainstream finance and US regulators look at the bitcoin currency. This is probably the most effective way to drive mass adoption and financial inclusion that is available to bitcoin developers.

To date, the only US regulatory approvals of bitcoin have come from licensing regimes, and FinCEN, which is about mere money transmission and not holding bitcoin as a financial asset. These regulations are too disparate, unpredictable and volatile for many mainstream businesses and financial institutions to even consider holding bitcoin the currency on their balance sheets. This is why mainstream America is taking the 'forget bitcoin because of the regulatory risk, so let's use blockchain technology instead' narrative to heart.

CFTC is a federal regulator - the top dog. What CFTC says often overrides state regulation (see Supremacy Clause, US Constitution). Financial institutions that serve American businesses currently consider bitcoin regulatory risk too high to hold bitcoin on their balance sheets. But this will change if CFTC gives the A-OK to bitcoin by approving bitcoin products (in the same way that other commodities like oil are approved by the CFTC), and the world's first regulated fully-compliant clearinghouse that makes bitcoin legally accessible to mainstream finance.

This is exactly what LedgerX has been working on for 2 years now. LedgerX is a startup bitcoin derivatives exchange and clearinghouse backed by Lightspeed Venture Partners and Google Ventures, among others. Our Board of Directors includes Mark Wetjen, former CFTC Acting Chair under Obama, and Jim Newsome, former CFTC Chair under Reagan.

The CFTC's decisions are for regulatory approval of our company, our internal policies and rules, and bitcoin as a financial asset itself. LedgerX has one of the three approvals required to move Bitcoin forward--- approval for temporary registration to operate as a Swap Execution Facility (exchange), and we are working towards Derivatives Clearing Organization (clearinghouse) and product (i.e., bitcoin) approval. (Institutions will trade on the exchange and settle directly to bitcoin via the licensed clearinghouse, which avoids the hedging inefficiencies of current derivatives exchanges. This solves a major treasury risk issue for bitcoin corporates, who currently don't have effective hedging mechanisms, and therefore can't take on that much bitcoin risk.)

Many of the details of CFTC regulation of LedgerX itself are public, and are available for reading at the following links, although some documents have been marked confidential:

SEF - <http://sirt.cftc.gov/SIRT/SIRT.aspx?Topic=SwapExecutionFacilitiesAD&Key=30643>

DCO - <http://sirt.cftc.gov/sirt/sirt.aspx?Topic=ClearingOrganizationsAD&Key=30998>

SEF approval- <http://www.cftc.gov/PressRoom/PressReleases/pr7226-15>

Public Comment Period- <http://www.cftc.gov/PressRoom/PressReleases/pr7115-15>

If CFTC can re-learn bitcoin and understand that the currency as potential - and that bitcoin is not merely a SWIFT protocol replacement, which is what CFTC currently thinks - US regulators are poised to give their official stamp of approval to bitcoin the *financial asset*. Ramifications for adoption would be huge, as banks would no longer be advised by their accounting firms not to hold bitcoin, meaning many more American businesses could start accepting it. This effect will eventually reach consumers and the broader public.

This may not happen if CFTC sees bitcoin as a mere back-office ledger replacement, which has been causing some resistance due to misdirected hype lately. An upcoming planned CFTC Technology Advisory Committee meeting totally ignores bitcoin as a currency, and focuses entirely on the blockchain as a back-office ledger replacement. LedgerX will be presenting at this meeting as a member of the committee, but without prior public statement from Bitcoin Core, it will be very hard to redirect the deluge of attention from blockchain-as-database and successfully convince CFTC that bitcoin is a financial asset, commodity or even currency. While CFTC has previously ruled that bitcoin is a commodity, this does not imply product approval - there are other criteria, including spot trading volume and future direction of bitcoin. Time is of the essence because it's important to CFTC's decision process that bitcoin the currency have enough industry focus to merit product approval.

Weeks ago, Greg Maxwell mentioned to Bryan Bishop that he has been considering making a "currency-only" statement with the other Bitcoin Core developers. We have reached out and elaborated on these good reasons to move that action forward to within the next few days or week and the sentiment has been positive so far, and hopefully this letter will clarify the context for some. We have drafted a letter towards this end and we are circulating the letter to Bitcoin Core developers for editing, feedback and signatures:

<https://docs.google.com/document/d/1GpcLG-9PrK8Z6ZPI0Q-u1VDBQc7qIhOXvNiCmjHkDSg/edit#>

The purpose of the letter is to clarify that Bitcoin Core developers are focusing their resources on the comparatively huge potential and existing value of Bitcoin the currency, and that blockchain-as-a-database is somewhat of a distraction from this primary mission. It's not really practical to let others feed on the hype and success of Bitcoin for their own somewhat irrelevant projects and misdirection. We believe that this sort of statement from the Bitcoin Core developers will convince regulators that bitcoin as a financial asset and currency is worth approving.

On Thu, Nov 12, 2015 at 10:58 AM, Jeremy Rubin <[REDACTED]> wrote:

Hi Jeffrey, Joi,

Bryan (CC'd) is doing some work looking at how cftc is trying to regulate bitcoin options trading. See his note to me below

""so, cftc is making a decision by the end of the month about whether to regulate bitcoin for options trading- and we need them to say yes... but they are presently confused about jamie dimon's comments saying bitcoin is irrelevant, only blockchain matters.

so to this end we are drafting an open letter that says why bitcoin matters and why database tech isn't the goal here and i am passing around to core devs""

the draft letter: <https://docs.google.com/document/d/1GpclG-9PrK8Z6ZPI0Q-u1VDBQc7qIhOXvNiCmjHkDSg/edit#heading=h.m151wtu6dr44>

What do you think of the letter? Is Bryan right to ask for regulation? Are there advantages to trying to stay unregulated? Have you talked with Jamie about this stuff at all? (Bryan, feel free to add more questions)

My hunch is that regulation is bad, but option trading is good. Bitcoin accepting companies suffer because they can't stomach the volatility without options. Are there orkarounds to get the best of both?

Best,

Jeremy

--
[REDACTED]

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- Bryan

<http://heybryan.org/>

1 [REDACTED]