



Coinsource

BLOCKCHAIN PRODUCTS, BUSINESS & LAW
SEPTEMBER 28, 2017



Arnold Spencer, Esq.
General Counsel, Coinsource

WHAT IS MONEY?

“SOMETHING GENERALLY ACCEPTED AS A MEDIUM OF EXCHANGE, A MEASURE OF VALUE, OR A MEANS OF PAYMENT.”

-MERRIAM WEBSTER



“MONEY OR MONETARY VALUE MEANS CURRENCY OR A CLAIM THAT CAN BE CONVERTED INTO CURRENCY THROUGH A FINANCIAL INSTITUTION, ELECTRONIC PAYMENT NETWORK, OR OTHER FORMAL OR INFORMAL PAYMENT SYSTEM.”

-TEXAS DEPARTMENT OF BANKING



FUNCTIONS OF MONEY

“MONEY IS A MATTER OF FUNCTIONS FOUR.
A MEDIUM, A MEASURE, A STANDARD, A
STORE.”

-ALFRED MILNES (1919)

CHARACTERISTICS OF MONEY

GOOD MONEY SHOULD BE:

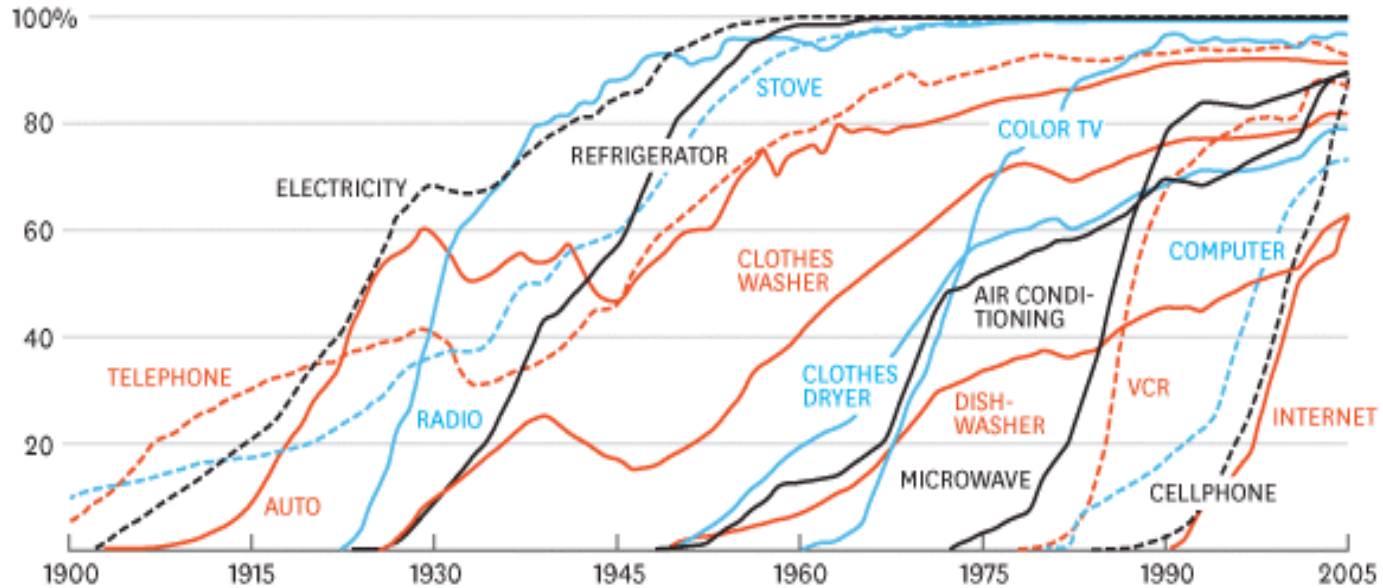
- GENERALLY ACCEPTED.
- DURABLE.
- PORTABLE.
- HOMOGENEOUS/FUNGIBLE.
- DIVISIBLE.
- IDENTIFIABLE.
- INTRINSIC OR STABLE VALUE.

CHARACTERISTICS OF MONEY

| | UNIFORM | EASILY TRANSFERRED | SCARCE | DIVISIBLE |
|---------------|---------|--------------------|--------|-----------|
| SHELLS | ✓ | ✓ | | |
| GOLD | ✓ | ✓ - | ✓ | ✓ |
| COINS/DOLLARS | ✓ | ✓ - | ✓ - | ✓ |
| BITCOIN | ✓ | ✓ + | ✓ + | ✓ + |

CONSUMPTION SPREADS FASTER TODAY

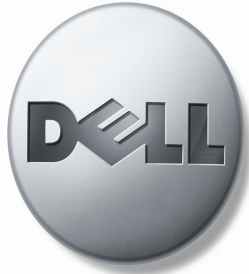
PERCENT OF U.S. HOUSEHOLDS



SOURCE MICHAEL FELTON, THE NEW YORK TIMES

HBR.ORG

WHO ACCEPTS BITCOIN?



BITCOIN = MONEY?

- AUSTRALIA: MONEY
- EUROPEAN UNION: MONEY
- TURKEY: MONEY
- SOUTH AFRICA: NO LEGAL STATUS
- CANADA: INTANGIBLE
- SLOVAKIA: NO LEGAL ATTRIBUTES OF CURRENCY
- DENMARK: NOT A CURRENCY
- SWEDEN: CURRENCY
- NORWAY: ASSET
- U.S. V. MURGIO: MONEY
- ISRAEL: NOT MONEY
- JAPAN: A MEANS OF PAYMENT THAT IS NOT LEGAL CURRENCY
- GERMANY: PRIVATE MONEY USED IN MULTI-LATERAL CLEARING CIRCLES

SEPTEMBER 25, 2017 NEWS RELEASE



coindesk Blockchain 101 Technology Markets Business Data & Research Consensus Search

Download Now: CoinDesk Launches Q2 State of Blockchain Report

Ukrainian Central Banker: Bitcoin Is 'Definitely Not a Currency'

Sep 25, 2017 at 21:35 UTC by Marc Hochstein

Bitcoin ▼ -0.34% \$3914.14

Ethereum ▼ -1.21% \$288.71

Buy bitcoins using your IRA or 401(k)
IRS Approved. No Investment Caps.

HOW IS BITCOIN REGULATED IN THE UNITED STATES?

- IRS – PROPERTY (NOT A CURRENCY)
- SEC – SECURITY
- GEORGIA – MONEY
- U.S. V. MURGIO – FUNDS/MONEY
- CFTC – COMMODITY
- FINCEN – MONEY
- NYDFS – VIRTUAL CURRENCY
- SEC V. SHAVERS – MONEY

COMPLIANCE MYTHS

- BITCOIN IS PRIMARILY USED FOR CRIMINAL ACTIVITIES.
- BITCOIN IS EASIER TO LAUNDER THAN SOVEREIGN CURRENCY.
- TERRORISTS USE OF BITCOIN IS A SIGNIFICANT THREAT TO NATIONAL SECURITY.
- BITCOIN IS A FRAUD.



COMPLIANCE TRUTHS

- GLOBAL MONEY LAUNDERING TRANSACTIONS ARE ESTIMATED TO BE BETWEEN \$1 TRILLION AND \$2 TRILLION DOLLARS. (UNITED NATIONS OFFICE ON DRUGS AND CRIME)
- EVERY BITCOIN TRANSACTION IS RECORDED ON A SEARCHABLE, PUBLIC DATABASE.
- JP MORGAN PAID A \$461 MILLION FINE TO FINCEN FOR COMPLIANCE FAILURES SURROUNDING THE MADOFF SCANDAL.



BITCOIN - AS A TECHNOLOGY

- PEER TO PEER TRANSACTIONS.
- ENABLES STRANGERS TO TRANSACT FROM DIFFERENT LOCATIONS.
- IMMEDIATE VERIFICATION BEFORE AND AFTER TRANSACTION.
- TRANSACTIONS RECORDED ON PUBLIC, DISTRIBUTED LEDGER (i.e. BLOCKCHAIN).



BITCOIN - AS A CURRENCY

- HARD TO EARN.
- LIMITED IN SUPPLY.
- EASY TO AUTHENTICATE.



ADVANTAGES OF BITCOIN

- FASTER.
- CHEAPER.
- SAFER.



UNITED STATES – REGULATION AT FEDERAL LEVEL

31 CFR § 1022.210 REQUIRES AN MSBs TO ADOPT AN AML PROGRAM:

- INCORPORATE EFFECTIVE AML POLICIES, PROCEDURES AND INTERNAL CONTROLS.
- DESIGNATE A PERSON TO ASSURE DAILY COMPLIANCE.
- PROVIDE EDUCATION AND TRAINING.
- PROVIDE FOR ANNUAL INDEPENDENT REVIEW.

UNITED STATES – REGULATION AT STATE LEVEL

TEXAS

- Money Transmitter License is not required to operate a BTM in Texas.
- Currency is defined as “the **coin and paper money of the United States** or any country that is designated as legal tender and circulates and is customarily used and accepted as a medium of exchange in the country of issuance.” Tex. Fin. Code § 151.501(b)(1)
- “The only way to convert a unit of cryptocurrency to sovereign currency is to find a willing buyer. **Therefore cryptocurrencies as currently implemented cannot be considered money or monetary value under the Money Services Act.**” Texas Department of Banking: Supervisory Memorandum – 1037 (April 3, 2014).

UNITED STATES – REGULATION AT STATE LEVEL

GEORGIA

- Seller of Payment Instruments License required to operate a BTM in Georgia.
- Payment instrument is defined as “any instrument, order, or device for the payment or transmission of money or monetary value.”
Ga. Code Ann. § 7-1-680(17) (2015).
- Monetary value is defined as “a medium of exchange, **whether or not redeemable in money.**” Ga. Code Ann. § 7-1-680(12) (2015).

UNITED STATES – REGULATION AT STATE LEVEL

NEW YORK

- New York Virtual Currency Business License (aka “Bit License”) required to operate BTM in New York.
- “No Person shall, without a license obtained from the superintendent as provided in this Part, engage in any Virtual Currency Business Activity.”
23 NYCRR 200.3(a)
- “Virtual Currency Business Activity means the conduct of any one of the following types of activities involving New York or a New York Resident:
...(3) buying and selling Virtual Currency as a customer business”
23 NYCRR 200.2(q)

FINCEN ENFORCEMENT ACTION AGAINST RIPPLE LABS

- FAILED TO REGISTER WITH FINCEN AS AN MSB.
- FAILED TO FILE SARS.
- ADMITTED TO A FAILURE TO REGISTER AND A FAILURE TO IMPLEMENT EFFECTIVE AML PROGRAM.
- AGREED CIVIL JUDGEMENT FOR \$700,000.
- THREE YEAR COMPLIANCE MONITORING.



HOW DOES COINSOURCE DECREASE RISK?

- TOP-DOWN CULTURE OF COMPLIANCE.
- LIMITATIONS ON VALUE AND FREQUENCY OF TRANSACTIONS.
- REVIEW DATA. SO MUCH DATA.
- EXTENDED DUE DILIGENCE.



HOW DO YOU AML/KYC WITH A VIRTUAL CUSTOMER?

- TELEPHONE NUMBERS.
- IDENTIFICATION.
- PII.
- PASSWORDS.
- INTERFACE WITH BANKS.
- DATABASES.
- PUBLIC PROFILES
- FINGERPRINTS.
- FACIAL RECOGNITION SOFTWARE.



HOW TO BUY BITCOIN

- MEET UPS.
- EXCHANGES
- BTMs.

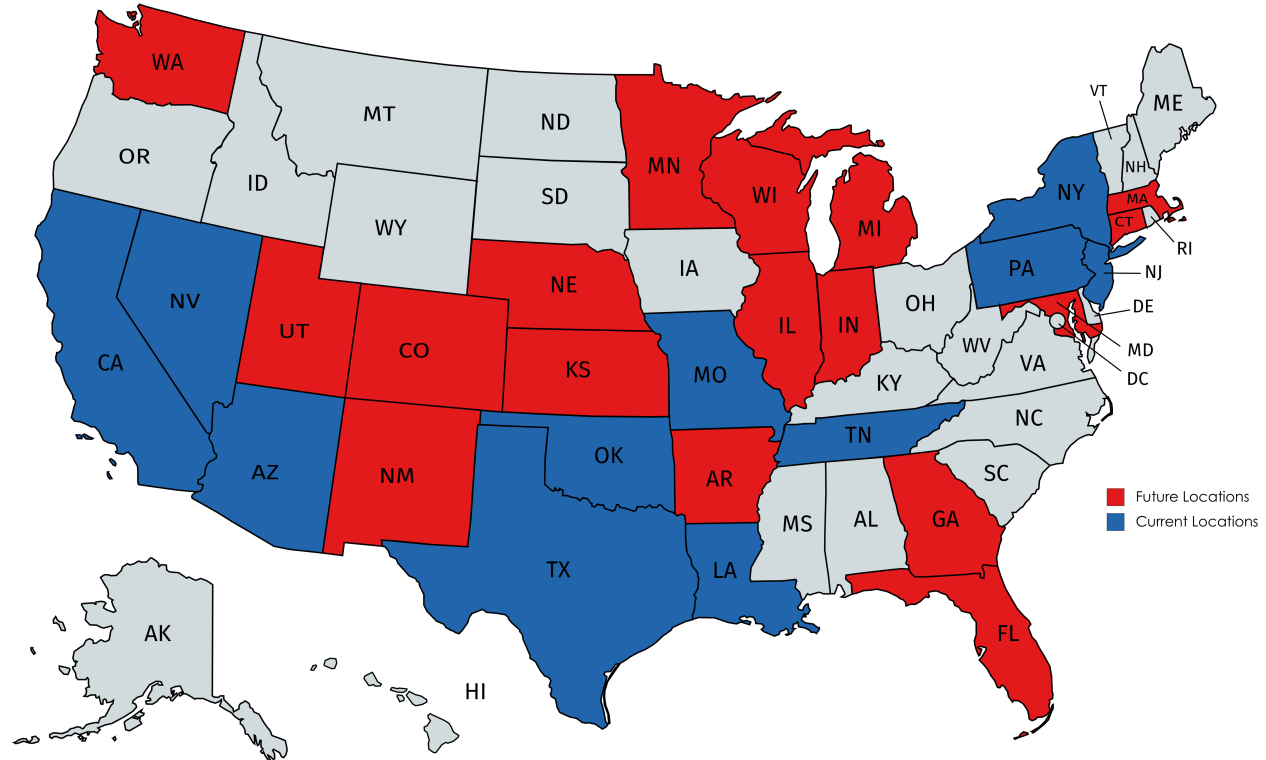


PROPOSALS TO REGULATE BITCOIN

- MEET UPS – PROHIBIT UNLICENSED MSBS.
- EXCHANGES – REQUIRE REGISTRATION WITHIN STATE AND FEDERAL JURISDICTIONS.
-REQUIRE BSA COMPLIANCE.
- BTMs – REQUIRE REGISTRATION WITHIN STATE AND FEDERAL JURISDICTIONS.
-REQUIRE BSA COMPLIANCE.

LARGEST OPERATOR OF BTMs IN THE UNITED STATES

- 130 BTMs IN 11 STATES EFFECTIVE MARCH 1, 2017.
- EXPANDING INTO 8-12 NEW STATES IN 2017.
- 1000+ POTENTIAL SITES IN FIRST 12 STATES.
- CAPITAL REQUIRED FOR HARDWARE AND INVENTORY.



COINSOURCE BTMs in DFW

Chevron Gas Station

14040 Montfort Dr.
Dallas, TX 75240

Chevron

3306 Grand Ave.
Dallas, TX 75210

Start Track Food & Beverage

12977 Trinity Blvd.
Euless, TX 76040

Shell Gas Station

3233 Cleburne Rd.
Fort Worth, TX 76110

Hampton Food Mart

5707 Marvin D Love Fwy.
Dallas, TX 75232

Shell Gas

1050 N University Dr.
Fort Worth, TX 76114

Chevron / Colima Taqueria

877 S Interstate 35 E
Lewisville, TX 75067

Texaco Gas / Food Mart

901 E Pioneer Pkwy.
Arlington, TX 76010

Alon Gas Station

4101 Denton Highway
Haltom City, TX 76117

Twin Creeks

802 W. McDermott Dr.
Allen, TX 75013

COINSOURCE BTMs in DFW

