



## HOUSE ENERGY AND COMMERCE SUBCOMMITTEE HEARING

### OVERVIEW

For questions on the note below, please contact [Kwon Park](#) at (202) 547-3035.

On March 16, the House Energy and Commerce Subcommittee on Commerce, Manufacturing, and Trade held a hearing entitled “Disrupter Series: Digital Currency and Blockchain Technology.”

Please click [here](#) for the Committee Memorandum.

### Key Takeaways

- Many witnesses indicated that enhanced cybersecurity protections and proper disclosures will make digital currencies and the blockchain technology safer for adoption and consumer use.
- Some witnesses said that blockchain technology will make financial transactions faster, safer, and cheaper. Also, they stated that this technology will increase global access to the financial system at a cheaper cost, and will make micro and macro transactions more efficient.
- All witnesses agreed that regulations must not hinder innovation, while stressing the need for heightened customer protection.

### SUMMARY

#### Opening Statements and Testimony

##### Subcommittee Chairman Burgess (R-TX)

- Interested to hear what the development of blockchain means for the next 25 years in digital commerce.
- The technology must demonstrate the scalability to handle many transactions in U.S. markets.
- Cybersecurity and transparency with regard to digital currency is important.

##### Cardenas (D-CA)

- How must yesterday’s rules change to fit today’s technologies?
- Digital currencies lack some protections of more traditional financial products, is more volatile, and have become associated with illegal transactions – these issues must be discussed.
- Blockchain is an innovation that can have many different applications with the potential to cut out intermediaries.
- Compliance with rules to protect consumers is a necessary part of participating in our economy.

##### Pallone (D-NJ)

- Peer-to-peer transfers may cut costs and increase access to consumers. However, digital currencies are subject to price volatility and money laundering.
- Blockchain has gained enormous interest in the economy and may increase transparency, enhance privacy protections, reduce human error, and reduce transaction costs.

- Consumer protection must be considered as new technologies are developed.

#### [Jerry Brito, Executive Director, Coin Center](#)

- Bitcoin is an open platform for innovation and looks similar to how the internet looked in 1995.
- Regulatory uncertainties (especially at the State level) produce a challenge to innovation.

#### [Juan Suarez, Counsel, Coinbase](#)

- The rapid emergence of Bitcoin is attributable to core characteristics: decentralization, global accessibility, and open source protocols.
- Virtual currency could bring new efficiencies and lower transaction costs in the financial sector.

#### [Gennaro Cuomo, VP of Blockchain Technologies, IBM](#)

- Blockchain has the potential to vastly reduce the cost of getting things done in many industries.
- Shared ledgers are up to date reflecting the most recent transactions, and they cannot be reversed – chances of tampering and collusion are greatly reduced.
- Blockchain technology must be enterprise ready, and systems must be scaled up to handle many transactions. Blockchain must be open and based on non-proprietary technology and built using open-source code. Blockchain will greatly benefit from government interaction.
- Regulatory approaches must maximize blockchain's potential while protecting consumers.

#### [Paul Snow, Chief Architect, Factom](#)

- Blockchain creates data histories that can be utilized in many situations.

#### [John Beccia, General Counsel, Circle Internet Financial on behalf of ETA](#)

- Consumers can use digital currencies in various ways, and it offers increased privacy.
- Industry is working diligently to address risks such as money laundering.
- We are the only company currently with a New York BitLicense - regulatory uncertainty is making innovation difficult.

#### [Dana Syracuse, Counsel, BuckleySandler LLP](#)

- Uniform approach across all states would be a good goal when regulating Bitcoin.
- Blockchain functionalities are not novel, so regulators should study existing regulations that can apply to this technology.
- Regulations on blockchain protocols will be a hindrance to innovation.

#### [Matthew Roszak, Chairman, Chamber of Digital Commerce](#)

- Challenges remain in increasing scalability with the increased use of Bitcoin.
- I see incredible promise in this technology, especially with the increase in investments.

### **Discussion**

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#### **Enforcement and Consumer Protection**

*Burgess*: Law enforcement aspects of Bitcoin – what is Ransomware? *Syracuse*: Flow of funds can be linked back from wallet to wallet. It is important to regulate the entryways and exits. Blockchain forensics tools must be utilized to trace the funds; *Brito*: Ransomware has been around for over 20 years – the problem is a lack of cybersecurity protection.

*Schakowsky (D-IL)*: If a consumer needs to contest a purchase, are they protected in the same way as a credit/debit card? *Syracuse*: Depending on what was used to facilitate the transaction, the medium might provide those protections. Under a BitLicense, certain disclosures are made to consumers; *Snow*: Blockchain is irreversible, but does have potential for consumers to have better understanding before making a transaction.

*Bilirakis (R-FL)*: Anonymous transactions by criminals and terrorists – how do you address that? *Roszak*: Traceability of digital currency is more profound and working with law enforcement to provide forensics in use cases; *Brito*: Not seen use of digital currency by terrorists but it is a possibility – we are working hard to prevent that; *Syracuse*: The industry has been responsive to file suspicious reports; *Cuomo*: The larger your use of blockchain, the easier to track organizations and their activities – it is a bad system to use for larger organizations, the bigger the opportunity to catch bad activities.

### **Digital Currency**

*Burgess*: How do you value the price of Bitcoin? *Roszak*: The price depends on supply and demand.

*Lance (R-NJ)*: Does the public have the ability to invest in these products? *Suarez*: Yes, there is an existing platform allowing customers to purchase Bitcoin.

*Bilirakis (R-FL)*: Benefits to Bitcoin and blockchain technology? Why is the price of Bitcoin so volatile? *Roszak*: Bitcoin or digital currencies can be used cheaply, quickly, and safely. Remitting money around the world is cheaper and faster. Financial access is a huge driver in Bitcoin. Bitcoin is determined by supply and demand; *Beccia*: People are holding digital currencies as assets – different innovations will make digital currencies less volatile.

### **Privacy**

*Lance (R-NJ)*: Privacy concerns the public consider when purchasing digital currencies? *Beccia*: Anonymity could be a benefit from a consumer's standpoint, but might be problematic for regulators. We focus on knowing our customers to help regulators to trace transactions.

### **Blockchain Technology**

*Lance (R-NJ)*: Public versus private blockchain? *Cuomo*: Blockchain architecture allows for a permission-based blockchain that could also be permissive. Regulators may have permission to access more information than a typical consumer or company.

*Schakowsky (D-IL)*: What are some issues of blockchain? What factors are important in regulating this industry? *Syracuse*: How the technology works, how the digital currencies should be regulated, and what aspects of the ecosystem should be regulated. New York said they would only govern transfer of money from point A to point B. Other states are approaching it differently. The factors important are consumer protection, cybersecurity, money laundering, and etc; *Beccia*: Consumer protection is

important. At the Federal level, regulators are very active and would expect more regulations in the future (i.e. disclosure laws).

*Burgess*: What application will be most useful with this technology going forward? *Brito*: In areas where technology evolves where our current systems cannot do, such as micro transactions and macro transactions. Smaller transactions may be cheaper, faster, and safer. Bigger payments will also become more efficient; *Suarez*: There is enhanced security and cost benefits, and easier access and cheaper costs for micro payments; *Cuomo*: Use cases that might happen in everyday life such as insurance; *Snow*: Knowing the history of transactions will lead to dramatic reduction in overhead costs of corporations; *Beccia*: Excited about having real estate transactions, recordkeeping, etc.; *Syracuse*: Ability in big data to put ownership of one's identity in their own hands will make it an asset they can leverage – key thing for regulators is to promote an environment for this technology and innovation to grow; *Rosak*: Making each transaction unique and this technology makes you engage in transactions privately and securely.