



Bitcoin Foundation

February 27, 2014

The Honorable Joe Manchin
United States Senate
306 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Manchin:

We read with interest your recent letter to federal regulators regarding Bitcoin. Your interest in protecting Americans is genuine, of course, and laudable. We believe the consensus in Washington, D.C., is the right one for protecting consumers and growing the American economy: the U.S. should foster the benefits of Bitcoin while mitigating the risks.

To that end, we offer the following information to help improve your and others' consideration of the Bitcoin protocol, its many potential benefits, and the risks. We hope to be a valuable resource to you and your office, as we have been to many others in Congress and in relevant U.S. federal agencies.

The Bitcoin Foundation is a member-driven non-profit organization dedicated to serving the business, technology, government relations, and public affairs needs of the Bitcoin community. The foundation works to protect and standardize the Bitcoin protocol and software, to broaden the use of Bitcoin through public education and by fostering a safe and sane legal and regulatory environment, and to support local Bitcoin efforts by connecting a network of Bitcoin communities worldwide.

In the past several months, we have been invited to testify and present in a variety of settings, formal and informal, helping to educate congressional staff and government agencies about Bitcoin. Most notably, we participated in the first congressional hearing on Bitcoin hosted by Senator Carper, Chairman of the Senate Committee on Homeland Security and Governmental Affairs, on November 18, 2013. I testified about Bitcoin's potential for increasing global financial inclusion, expanding human liberty, strengthening privacy protections for the law-abiding, and providing a stable money supply for those in countries where the local currency is poorly managed. As you know, the Senate Committee on Banking, Housing and Urban Affairs, also held a hearing on virtual currencies on November 19, 2013.

These hearings included witnesses from the Financial Crimes Enforcement Network in the Department of the Treasury, from the Department of Justice, the Department of Homeland Security, and the Secret Service. The hearings also included representatives of U.S.-based Bitcoin businesses, academics, a state banking regulator, and other interested parties. The federal regulators testifying at these hearings have examined Bitcoin carefully, and they produced careful, thoughtful testimonies. They seem relatively sanguine about the risks Bitcoin creates and open to capturing its benefits for Americans, including the jobs and economic growth that will come from U.S.-led financial services innovation.

The benefits of Bitcoin go beyond its role as an alternative currency. The Bitcoin protocol, essentially a universal public ledger, may help establish property ownership in third-world countries, allow people to create computer-automated contracts, aid in the management of public resources like the Internet, and much more. The Bitcoin protocol is a revolutionary invention whose potential is only beginning to be discovered.

There are risks, but we are confident that they are not as dire as your letter suggests. Because Bitcoin is a public ledger, records of transaction are published and available online for all time. This is a far more transparent system than conventional financial services and payments, in which the vast majority of transactions are concealed. Indeed, a challenge for Bitcoin adoption is making sure that law-abiding people's transactions do not expose their private financial information. We believe the law enforcement challenge with respect to Bitcoin is different but not harder. As you probably know, at the Homeland Security and Governmental Affairs Committee hearing on Bitcoin, FinCEN Director Jennifer Shasky Calvery said, "Cash is probably still the best medium for laundering money."

The demise of Silk Road illustrates well that Bitcoin is not a magic cloak for crime. Though breathless press reports portrayed Bitcoin as a tool of criminality early on, law enforcement has caught up. The Silk Road collapsed, and successor sites have collapsed. We anticipate studying more carefully privacy, anonymity, pseudonymity, and the needs of law enforcement with respect to Bitcoin.

Some countries' central banks have warned consumers about the risks around Bitcoin. I have done the same. Consumers should not invest any money they aren't prepared to lose, and the volatility of Bitcoin's price against the dollar is high, though it will fall over time. Many countries around the world are embracing Bitcoin, though, as a digital currency that offers their people improved financial services and greater economic freedom. Germany, Finland, Singapore, and Canada, for example, are among the U.S. allies that have sent favorable signals by issuing tax guidance on Bitcoin. Ireland, Israel, and Slovenia appear to have plans to do so. News reports about bans on Bitcoin in China, Thailand, and South Korea may be a product of misunderstanding local conditions.

The Bitcoin ecosystem is still very much in its infancy, and the first wave of Bitcoin businesses is now beginning to give way to a second, more sophisticated group of investors

and businesspeople. We believe that the failure of one foreign-based exchange should not darken the prospects for Bitcoin businesses in New York, California, Washington state, and all over the country, including a restaurant in West Virginia that announced late last year that it is accepting payments in Bitcoin.

Small businesses all over the country like Artisan Pizza & Pasta in Charleston are signing up to accept Bitcoin payments. With credit card payments costing two to three percent, the narrow profit-margins of retail businesses get even smaller. The competition that Bitcoin may bring to the \$50-billion per year credit card payment business may push lower fees and better service for small businesses and consumers alike. Meanwhile, Bitcoin-based financial innovation may help control data breaches, of which we have seen massive examples in the recent past. Payment services designed for the Internet need not put Americans' personal information at risk.

We do not believe that this is the right time in U.S. economic history to turn away from innovations that offer improvements in the jobs picture and the economy. If Bitcoin does not flourish in the United States, it will flourish elsewhere, and the United States will cede leadership to the countries with the more foresighted approach to innovation and economic progress.

There is a lot to learn about Bitcoin, how it works, and what its effects on U.S. society will be. There is no need to fear Bitcoin or overreact to the challenges that accompany its huge potential benefits. We would be happy to meet with you and your staff at your convenience, as we have done with dozens of others congressional offices and government agencies. I can be reached at patrick@bitcoinfoundation.org.

Respectfully,

Patrick Murck
General Counsel