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## Bitcoin SV: The Regulation-Friendly Bitcoin

by Jimmy Nguyen

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Many cryptocurrency enthusiasts argue that Bitcoin and other digital currencies are beyond the law's reach, and that instead "code is law." Recent headlines make clear this is not true - Facebook's Libra project faces U.S. Congressional hearings and pushback from other governments, the New York Attorney General Office's investigation into Bitfinex and Tether, the bankruptcy of Canadian exchange QuadrigaCX and discovery that its CEO abused customer funds, and more stories of crypto actors running into the law. While other cryptocurrency camps resist government, I and other Bitcoin SV (BSV) supporters welcome responsible regulation. We know it's necessary to protect consumers, win institutional investment, earn enterprise confidence, and help grow blockchain technology. That's why BSV, as it restores Bitcoin's original Satoshi Vision, is building a regulation-friendly ecosystem.

Bitcoin's blockchain is an immutable ledger of transactions and data. While its system provides pseudonymity to users, the ledger is transparent and auditable. That's because Bitcoin was designed to create more honesty in government, businesses and money. (Read the [Bitcoin white paper](#) and you'll see it uses the word "honest" 15 times.) Bitcoin was intended to bring more light, not darkness, to the world. Unfortunately, its early commercial uses – such as the Silk Road marketplace - fostered criminal activity. And many early crypto enthusiasts have an anti-establishment, even crypto-anarchist, mindset and advanced the false idea that Bitcoin was anti-government.

I have a healthy respect for law. I'm a former 21+ year lawyer in the U.S., having helped big corporates and tech start-ups navigate legal compliance as they conducted business on the Internet and other digital platforms. My legal career helps me understand the practical challenges companies confront when regulation is uncertain for frontier environments – such as Bitcoin and cryptocurrency face now. This is why I know Bitcoin's industry will grow by working **with**, not **against**, the law. For Bitcoin to achieve global adoption, businesses and consumers need confidence its currency and blockchain are legally safe to use.

In practical terms, what does this mean? For me and others in BSV ecosystem, it means:

### ***1. Users should have privacy about their Bitcoin transactions, but not anonymity.***

Bitcoin transactions are pseudonymous, but not anonymous. Other crypto projects want to create coins that enable more “anonymous” transactions. But anonymity, especially with money, helps breed illegal activity and that is the opposite of what Bitcoin was created to do. While Bitcoin transactions are pseudonymous, they are a terrible means to conduct illegal activity because the blockchain evidence trail is permanent.

### ***2. Exchanges, custodial wallets and other service providers need to comply with know-your-customer (KYC) and anti-money laundering (AML) rules.***

When you open a bank account or send funds through money transmitters, you need to provide identifying information about yourself. Those KYC and AML requirements are designed to curb money laundering and illegal transfer of funds. But in the crypto world, some users do not like complying with such requirements to open exchange or wallet accounts, and many service providers resist because these rules create friction in the user on-boarding process. But the legal tide is increasingly making clear that laws governing money service businesses – which require KYC and AML compliance – apply to crypto exchanges, custodial wallets, and certain other service providers.

In the U.S., the Bank Secrecy Act and its related regulations will likely govern. In the G20 countries, exchanges face AML standards and countering the fund of terrorism (CTF) rules of the Financial Action Task Force. Before January 2020, in the European Union, exchanges must comply with the 5<sup>th</sup> Anti-Money Laundering Directive (AMLD5) – which treats exchanges like financial institutions and requires them to perform customer due diligence and submit suspicious activity reports (SARs).

Other crypto camps will struggle with such requirements. For example, the Bitcoin Core (BTC) ecosystem pins its hopes on the Lightning Network, which uses special nodes to create payment channels that are likely subject to money transmitter laws. Alt-coins that provide “anonymity” functions (better labelled “dark coins”) seek to avoid traceability. While their legal future is clouded, BSV builds an ecosystem with compliance in mind now. That’s why BSV will not be relegated to the small world of crypto hobbyists, but has the best path to global adoption.

### ***3. Cryptocurrency exchanges should be licensed and need oversight to protect investors.***

Cryptocurrency exchanges need to be regulated so they do not become “bucket shops” that allow gambling-like trading of numerous questionable digital assets. Regulatory oversight is also needed to protect investors – for example, to prevent wash trading that artificially inflates an exchange’s supposed volume; to ensure exchange operators separate their own fiat and crypto assets from those of customers (to prevent another QuadrigaCX debacle); and to avoid exchanges capriciously delisting a coin and unfairly hurting global investors in that asset, such as when Binance and certain other exchanges delisted BSV in April 2019 just because they personally disliked legal actions taken by prominent BSV supporter Dr. Craig Wright. Exchanges create the public marketplace for investors’ assets; they should be held to reasonable standards so they cannot unfairly harm those assets.

#### ***4. Token issuers should comply with applicable securities laws.***

The initial coin offering craze in 2017 is now resulting in regulatory enforcement action, and rightfully so. Most of those ICOs were unregistered security offerings, and should not escape securities laws just because the offered tokens were created on Ethereum or other crypto platforms. In the BSV world, we do not want a rampage of get-rich-quick tokens with no real value. Instead, we support tokenization of real world assets and creating tokens with real utility. While not all tokens trigger securities law, those that do should comply.

That's a big reason why the [Tokenized](#) team was selected to win [CoinGeek's £5 million contest](#) to create a tokenization protocol for BSV. In addition to being good technically, the Tokenized solution enables a token issuer to easily comply with laws in its operating jurisdictions – such as by enabling issuers to track, freeze and reclaim tokens, as well as restricting the secondary trading to accredited investors and/or investors from certain jurisdictions. That's smart, business-friendly, and indicative of the BSV ethos.

Another example of this ethos is [Float SV](#), which emerged in April 2019 as a new form of digital asset exchange. In addition to being a strong supporter of BSV, Float SV expressly advertises itself as “a digital asset exchange that only supports tokenized real assets.” I look forward to the day when BSV-based tokens of real world assets – such as commodities or financial instruments – are traded on Float SV and other like-minded exchanges.

#### ***5. Stable coins should be backed by verifiable and auditable real-world funds or liquid assets.***

Stable coins are a popular trend, but they need oversight to ensure they are in fact backed by real-world value. The New York Attorney General's investigation into Bitfinex and Tether has exposed how the USDT “stable coin” is not 100% backed by assets equal in value to the total amount of minted coins, and certainly not backed by liquid assets of reliable value.

Many observers believe Tether coins have been used to artificially pump up BTC's value – including during BTC's crazy 2017 bull run – and unduly influence the BTC market. That in turn triggers artificial rises and falls of other cryptocurrencies, which historically coupled to BTC's price trends. We do not want magically-minted digital coins to distort financial markets. If you issue a stable coin (on BSV or any other platform), the backing assets should be verifiable and auditable to ensure that each dollar worth of stable coin is truly backed by an equivalent dollar of real funds or liquid assets.

#### ***Proactive Regulation Can Help Bitcoin Grow***

People often think of regulation as only imposing restrictions on what actors cannot do. But laws can also be used to proactively help technology grow. For example, we encourage laws and government guidance that:

- Provide economic incentives for blockchain technology entrepreneurs and start-up companies;
- Create sandbox programs that allow start-up companies to experiment as a digital asset business before having to obtain a full regulatory license;

- Help cryptocurrency and digital asset businesses can obtain banking – such as by creating a new bank category that is clearly authorized to provide services to digital asset businesses (which the State of Wyoming in the U.S. has enacted);
- Recognize Bitcoin [SV] as legal tender or an authorized form of payment in the jurisdiction;
- Permit use of Bitcoin [SV] to pay corporate or individual taxes;
- Recognize enforceability of smart contracts (the State of Arizona in the U.S. has done so); and
- Recognize blockchain records can be used by corporations and in courts of law.

Dr. Craig Wright and I increasingly communicate with government officials to provide guidance on such matters. We review and comment on draft legislation. And we invite dialogue. Our goal is to educate legislators and government agencies about how to responsibly regulate cryptocurrency businesses, while encouraging innovative growth.

Any technology can be used for both good and bad purposes. It's how the Bitcoin ecosystem develops – and whether it supports legal frameworks – that will determine how much it succeeds. We want major enterprises and billions of people globally to use Bitcoin, precisely because it brings more light and honesty to the world. That's why BSV is finally creating the regulation-friendly Bitcoin, the way Bitcoin was always born to be.

*Jimmy Nguyen is Founding President of Bitcoin Association, the global industry organization for the business of Bitcoin, which backs Bitcoin SV. Jimmy was formerly CEO of nChain Group, the worldwide leader in advisory, research and development of blockchain technologies, and now is Chair of its Strategic Advisory Board. Jimmy is a former lawyer, with a 21+ year career as an intellectual property and digital technology lawyer in the U.S., where he was a partner at three major law firms. In 2008, Lawdragon named Jimmy (at only age 36) one of the "500 Leading Lawyers in America" and described him as a "dynamo talent."*