

STATE OF CONNECTICUT
DEPARTMENT OF BANKING
260 CONSTITUTION PLAZA • HARTFORD, CT 06103-1800



Jorge L. Perez
Commissioner

January 15, 2019

VIA EMAIL ONLY

Re:

Dear :

This is in response to your letter dated June 26, 2018 to the Department of Banking, requesting official guidance as to whether your company, , must acquire and maintain a money transmission license pursuant to Part V of Chapter 668, Sections 36a-595 to 36a-612, inclusive, of the Connecticut General Statutes, "Money Transmission Act", to engage in certain activities involving fiat and virtual currency with persons located in Connecticut.

The relevant facts, as I understand them, are as follows: headquartered in with a back-office in offers its clients a virtual currency exchange platform connecting buyers and sellers of bitcoin and other virtual currencies (collectively referred to as "bitcoin") in order to trade with one another over the Internet, and offers other related services. acts as a currency exchange, facilitating exchanges between customers of both fiat and virtual currency, and offers two products. The first product is an instant purchase option in which the customer can execute a transaction to purchase or sell a specified amount of virtual currency based upon the already opened and displayed spot price of a currency. The second product is an order book exchange in which the customer places orders with to purchase or sell virtual currency at a certain price and quantity. then matches the customer with another customer and executes the transaction based upon terms between the two customers. charges transaction fees in connection with the trades made on the exchange, which shall be the primary revenue stream for will not engage in any mining of bitcoin or obtain and maintain its own inventory of bitcoin. Instead, all currency shall be held by following customer deposits of either fiat or virtual currency.

Customers may fund their accounts through with fiat currency via credit card or wire transfer. All fiat currencies received are stored in 's fiat pooled accounts with an authorized financial institution. holds the customers' fiat funds, maintains possession and control of the same and makes them available to the customer to enable virtual currency purchases and trades within the exchange. Customers may withdraw fiat currency via wire transfer to an outside account by requesting a withdrawal and providing with the recipient's banking information. Customers may fund their account virtual balances by initiating a transaction from another wallet to an address provides. Those virtual currencies are then stored on 's internal pooled account for virtual currencies and each customer's balance is reflected on the customer's profile interface. The internal pooled account belongs to and

TEL: (860) 240-8299

FAX: (860) 240-8178

An Affirmative Action/Equal Opportunity Employer

website: <http://www.ct.gov/dob>

is stored in encrypted multi-signature wallets. In both fiat money and virtual currency situations, holds the currencies on behalf of the customer and then transfers them to either the requesting customer or a corresponding customer as part of both customers' currency exchange transaction.

Section 36a-597(a) of the Connecticut General Statutes, as amended by Public Act 18-173, provides, in pertinent part, that:

No person shall engage in the business of money transmission in this state, or advertise or solicit such services, without a main office license issued by the commissioner as provided in sections 36a-595 to 36a-612, inclusive, . . . except as an authorized delegate of a person that has been issued a license by the commissioner and in accordance with section 36a-607. . . . Any activity subject to licensure pursuant to sections 36a-595 to 36a-612, inclusive, . . . shall be conducted from an office located in a state, as defined in section 36a-2. A person engaged in the business of money transmission is acting in this state under this section if such person: (1) Has a place of business located in this state, (2) receives money or monetary value in this state or from a person located in this state, (3) transmits money or monetary value from a location in this state or to a person located in this state, (4) issues stored value or payment instruments that are sold in this state, or (5) sells stored value or payment instruments in this state.

Section 36a-596(9) of the 2018 Supplement to the General Statutes, as amended by Public Act 18-173, defines the term "money transmission" to mean, in pertinent part, "engaging in the business of issuing or selling payment instruments or stored value . . .". Section 36a-596(15) of the 2018 Supplement to the General Statutes, as amended, defines the term "stored value" to mean "monetary value that is evidenced by an electronic record. For the purposes of this subdivision, 'electronic record' means information that is stored in an electronic medium and is retrievable in perceivable form". Section 36a-596(8) of the 2018 Supplement to the General Statutes, as amended, defines "monetary value" to mean "a medium of exchange, whether or not redeemable in money".

Under the Money Transmission Act, would technically be either issuing or selling stored value in this state within the meaning of subdivisions (4) and (5) of Section 36a-597(a), respectively. Bitcoin has monetary value because it is a medium of exchange in the form of digital money that functions like cash.¹ Moreover, its value is evidenced by an electronic record in the form of the block chain that records all bitcoin transactions and wallets that contain a record of bitcoins owned by individual users.² Therefore, bitcoin is "stored value" within the meaning of Section 36a-596(15), as amended, and , accordingly, would be either issuing or selling stored value in this state through online transactions initiated or otherwise participated in by customers within Connecticut.

However, "virtual currency", as defined by Section 36a-596(18) of the 2018 Supplement to the General Statutes, as amended, is treated similar to fiat currency under Connecticut's money transmission scheme. Section 36a-596(18), as amended, defines "virtual currency", in pertinent part, as "any type of digital unit that is used as a medium of exchange or a form of digitally stored value or that is incorporated into payment system technology". Fiat money is currency that a government has declared to be legal

¹See "Why do bitcoins have value?" <https://bitcoin.org/en/faq>

²See "How does Bitcoin work?" *Id.*

tender, but it is not backed by a physical commodity and value is, therefore, derived from the relationship between supply and demand. It has been this Department's position that solely issuing or selling fiat or virtual currency would not require licensure. Further, if [redacted] simply and solely matched buyers and sellers of virtual currency or exchanged the currency directly without holding or transmitting any fiat or virtual currency on behalf of other persons, said facilitation of exchange would not require a money transmitter license. However, unless otherwise exempted by Section 36a-609 of the Connecticut General Statutes, if these digital currency exchanges hold or transmit fiat or virtual currency on behalf of Connecticut residents, they would be engaging in money transmission in this state and require licensure.

Based on the facts presented on behalf of [redacted] Connecticut consumers would have the opportunity to instantly purchase a certain amount of virtual currency through the [redacted] website in exchange for fiat money. This transaction alone may not give rise to a licensure requirement, but [redacted] maintains ownership and control of both the fiat money and the virtual currency following the transaction. A Connecticut consumer may also use [redacted] to be paired with a purchaser or seller of virtual currency. That specific activity may not require licensure, but [redacted] is holding virtual currency on behalf of customers. After holding virtual currency on behalf of customers, [redacted] then transfers it to other customers as part of the exchange transaction. [redacted] maintains control over the virtual currency, now on behalf of the customer that purchased the same. Connecticut consumers may also withdraw fiat money from [redacted] which has been held by [redacted] in a [redacted] account on behalf of the customer, by requesting a direct transfer from [redacted] to a designated outside account.

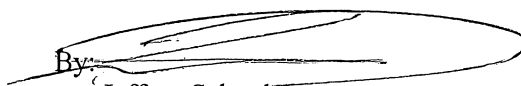
Although [redacted] does not have a physical place of business in this state, it does propose to engage in the business of money transmission in this state via mail and Internet. In particular, [redacted] receives money or monetary value from persons located in this state for current or future transmission when it receives either bitcoin via the Internet or other monetary value through the mail for conversion into bitcoin, such as cashier's checks, money orders or cash, and holds such monetary value in accounts for Connecticut persons. [redacted] has ownership or control of such monetary value as evidenced by the liability it assumes for these transactions.

For the above-mentioned reasons, the proposed activities of [redacted] with Connecticut persons require licensure under Part V of Chapter 668, Sections 36a-595 to 36a-612, inclusive, of the Connecticut General Statutes. This opinion is based on the facts stated herein and any variance from such facts may warrant a different conclusion.

If you should have any further questions, please do not hesitate to contact the undersigned at (860) 240-8141.

Very truly yours,

JORGE L. PEREZ
BANKING COMMISSIONER

By: 
Jeffrey Schuyler
Staff Attorney