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The United States Is Falling Behind in Bitcoin Regulation

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Lawmakers and regulators in the United States could be doing a much better job attracting innovative fintech startups to the country, Coin Center Executive Director Jerry Brito said at a recent cryptocurrency-focused event hosted by the Cato Institute.

Although the United States started out as the leader in Bitcoin regulation, it is now falling behind other jurisdictions, such as the United Kingdom, where innovation in fintech and digital currency is being embraced with open arms.

The U.S. Has Been a Leader in Bitcoin Regulation

In 2013, the U.S. Senate held the first hearings on Bitcoin. In that same year, FinCEN released the first announcement by any government agency related to the technology. The IRS was also the first tax agency in the world to clarify the tax treatment of Bitcoin and other digital currencies. Additionally, BitLicense in New York was the first licensing regime in the world directed at digital currencies.

“Although certainly imperfect, each of these pronouncements brought clarity and certainty to an emerging industry, and these approaches were copied around the world,” Brito said at the Cato event.

Other Countries Are Going Further

Bito also noted that the United States’ role as the regulatory leader for Bitcoin around the world is not guaranteed to last.

Other countries are beginning to start regulatory regimes that don’t merely tolerate cryptocurrency firms, but welcome them with open arms, he said.

Bito pointed to the United Kingdom as a specific example of a country looking to foster growth in the digital currency space:

“The U.K., for example, has created a regulatory framework that bends over backward to make it easy and quick for innovative startups and entrepreneurs to comply with the appropriate consumer protection regulations and safely enter the market.”

Project innovate was an initiative Brito used to bring home his point about the U.K.'s embracement of fintech. This project offers dedicated teams to startups to make sure they understand the various regulations that apply to them.

Once a business is regulated in the U.K., it's also able to operate throughout the rest of the European Union. Brito pointed to Circle's recent partnership with Barclays as an example of this sort of regulatory structure creating an environment for more connections between startups and the traditional banking system.

In the past, U.K. Chancellor of the Exchequer George Osborne has stated that the plan is to make London "the global center for fintech. ... The race is on, but we are determined to win it."

Current Status of Regulation in the U.S.

So how is the U.S. doing in comparison to the U.K.?

Bito said that only one BitLicense has been issued (to Circle), and at least 27 companies are still waiting in line for approval. He also noted that efforts to offer regulatory clarity, such as digital currency legislation in California, have stalled. Brito added that Coin Center is currently working with legislators in half a dozen states on various proposals for the regulation of digital currencies.

Another key issue often brought up on the regulation of fintech firms in the United States is that a different license is required for practically every state.

"Not only is this time-consuming and costly, but the states have not all explained if and how cryptocurrency businesses need to comply," Brito said. "At the federal level, we only see the most tentative steps toward a pro-innovation agenda."

What Can the U.S. Do Differently?

In addition to pointing out the current issues with digital currency regulation in the United States, Brito also offered some possible solutions.

"Serious action by federal banking regulators [is needed] to make it clear to banks that it's perfectly fine – and even encouraged – to establish relationships with innovative fintech and digital currency firms," he said.

Bito also pointed out the obvious need to create a new regulatory environment where startups are not forced to get a license from every state in which they wish to operate.

"Politically, these options are uphill battles, but if we don't think big, somebody else will," he said.