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Inside the Bitcoin advocates' closed-door meeting with federal regulators

By **Brian Fung**, Published: August 27 at 8:23 am

The U.S. government took the latest step toward regulating virtual currencies on Monday as representatives from the Bitcoin Foundation met behind closed doors with federal officials in Washington. Attendees say the meeting was cordial, with regulators listening carefully as Bitcoin advocates warned that excessive regulation could drive innovation in virtual currencies overseas.

Nearly a dozen high-level agencies were in attendance, including the Justice Department, the Federal Bureau of Investigation, the Department of Homeland Security, the Internal Revenue Service, the Secret Service and the Financial Crimes and Enforcement Division (FinCEN) of the Treasury Department, which convened the discussion.

The meeting was the first opportunity for advocates of Bitcoin — the online currency that can be used to buy real-world goods and services — to explain the system to a wide array of federal officials. Many would-be regulators expressed doubts about the payment method.

“You could tell the folks there were certainly concerned about the potential use of Bitcoin for illicit purposes,” said Jerry Brito, a senior research fellow at George Mason University’s Mercatus Center, who attended the meeting. “What the Bitcoin Foundation tried to stress is that Bitcoin is less useful for those purposes than other centralized virtual currencies. I think that got through, but the feeling from regulators wasn’t, ‘Oh boy, all of our concerns have been laid to rest now, and thank you for coming.’”

While regulators were primarily interested in financial crimes, members on the Bitcoin Foundation’s five-person panel discussed Bitcoin’s potential impact on the global economy. Startups and small businesses hoping to conduct transactions using

the currency would be driven out of the United States in the face of heavy regulation, said Marco Santori, the Bitcoin Foundation's regulatory affairs committee chairman, according to people at the meeting.

The consequences would amount to lost jobs and tax revenue. In addition, Marco said, other countries would benefit from the innovation that the United States had forced overseas.

Allowing Bitcoin to operate freely might result in a more competitive payments sector, said Jim Harper, a member of the panel and the director of information policy studies at the Cato Institute.

"Right now, it's \$3 to get money out of an ATM," Harper said in an interview Monday. "Technology like Bitcoin could change that equilibrium . . . doing it in a market-based way rather than a regulatory way."

Despite their initial skepticism, regulators seemed more interested in learning than in confrontation, according to attendees. And that's about as much as Patrick Murck, the Bitcoin Foundation's top lawyer, said he could hope for.

"The foundation has asked FinCEN to be open and transparent as they move forward," said Murck. "FinCEN's saying, 'Not only are we going to do that, but we're going to introduce you to the whole regulatory community.' And that's new."

Bitcoin Foundation representatives plan to spend Tuesday on Capitol Hill meeting with lawmakers' staffs.