

A Bitcoin Governance Network: The Multi-stakeholder Solution to the Challenges of Cryptocurrency*

Transcript of Interview with Jeremy Allaire Founder and CEO, Circle Internet Financial

Introduction:

Digital currencies such as bitcoin are products of the digital revolution and the networked age. As their usage and value have grown, government policymakers have struggled to play catch-up, finding it difficult to comprehend this phenomenon, let alone regulate and govern digital currencies effectively. Incumbent interests, such as large financial institutions, have been similarly caught off guard. Meanwhile, digital currencies march forward. The Bitcoin economy has grown to over \$8 billion in value and the bitcoin ecosystem, once composed exclusively of a few hobbyists and technologists, now includes merchants, financial services firms, start-ups, foundations, advocacy groups, investment companies, venture capitalists, government regulators, law enforcement agencies and NGOs. Thought leaders and business innovators, such as Jeremy Allaire, CEO of Circle, are now pushing forward with bold new applications for the bitcoin protocol. We were fortunate enough to sit down with Mr. Allaire for a candid and in-depth interview.



Jeremy Allaire

We would like to thank Mr. Allaire for his time and for his thoughts on this disruptive and fast-changing technology.

Participants:

Guest: Jeremy Allaire, CEO, Circle

Interviewer: Alex Tapscott, Author, "[A Bitcoin Governance Network](#)"

The Interview:

Tapscott Thanks very much for taking the time. As I mentioned, I'm working with the Global Solution Networks program at the University of Toronto, which is a landmark study of the potential of global web-based networks for cooperation, problem solving and governance. Bitcoin, and more broadly

cryptocurrencies, are an area that we've identified as having a potentially important role in the financial system of the future, and also having potentially a big windfall for consumers, merchants, for people in the developing world etc. At the same time we've identified some potential risks and also the ways in which it can disrupt existing players in the system. So we'd like to talk with you, Jeremy, about Circle specifically and also about your thoughts more generally on how you think bitcoin and cryptocurrencies will progress through regulations, and also more broadly about governance of digital currencies. But before we get into that, I'd like a little bit of background about how Circle came into being and how you first got involved in the bitcoin role.

Allaire Sure. I started Circle with my co-founder Sean Neville in the spring of 2013. Prior to founding Circle, I've founded and built multiple Internet software and online service companies, fairly high growth public companies with millions of customers around the world, and have really been an enthusiast for open internet platforms and the role that those can play in transforming society and the economy but also very specific industries. I learned about bitcoin in mid-2012 and was very curious about it. I have sort of a long-standing personal interest and prior academic interest in political economy issues and broader international economic issues and so it really was an interesting convergence of areas of interest for me.

And I had recently moved from being CEO of my last company, Brightcove, to being Chairman and it freed me up to look at different opportunities. I got more and more excited about bitcoins specifically, and in the February/March 2013 time frame, I looked around at the eco system a very, very nascent eco system, and there were very few, if any, serious business projects under way around it and it struck me as something that, with the sort of broad business and technical skills I had, that I could be very effective in starting a business in this industry.

And the sort of specific genesis for Circle was really a kind of shared belief system for Sean and me that an open format for money and open protocol for the transmission of value were a next logical phase in the Internet and that there was an opportunity to build a significant global consumer finance company that was anchored on those platforms.

And so that's really at the core of what Circle is about, which is trying to transform retail finance, consumer finance, globally using digital money and using platforms and networks like bitcoin.

Tapscott Thank you very much for this synopsis. Bitcoin has often been criticized in the media, rightly or wrongly, and perhaps the issues have been clouded by overly heated rhetoric, but for being volatile, unsafe and used commonly by the criminal element for cybercrime and the exchange of illegal goods. How do you respond to those criticisms and what's your viewpoint on those criticisms?

Allaire Yes, we're in the very early stages of the development of this market and this technology and I think this is not dissimilar from where we were with the commercialization of the Internet and the birth of the commercial web in 1994. Complex technology perceived by the mainstream to be on the fringe,

not secure and a lot of people questioning the kind of utility value of it and really creating a lot questions for government around governance issues. What we have now is a very similar kind of feeling to then.

I think the important thing is that the development in platforms like this happens very organically. It also happens over a much longer period of time than people ultimately expect. It's been 20 years since the birth of HTTP and HTML, at least in a meaningful form, and it takes a very long time for that to evolve. And so it's totally reasonable that at this stage with something that is so new and doesn't fit cleanly into the boxes that people understand, that there'd be a lot of concern or criticism. Obviously you know bitcoin itself, relative to the existing financial system, is a tiny, tiny, tiny drop in the bucket in terms of where criminals spend their time. In fact I testified to the US Senate in November of last year and the head of financial crimes enforcement for the US government testified at the same time and she made it very clear that the scale of criminal or money laundering activity that might be happening in virtual currency is sort of infinitesimal compared to what's happening in the US banking system and the US dollar where she estimated nearly two trillion dollars a year in criminal activity has taken place on a worldwide basis.

And so it's easy to level these criticisms but it's minor impact. I think the second piece is in an early market like this, the industry is seeing the disruptive potential but also acknowledging consumer protection issues, acknowledging that in a world where you have digital assets that are controlled by private keys in a kind of cryptographic system, that new best practices have to be established by commercial institutions to secure user funds, to keep fraudsters off of platforms that transmit those funds, and those are exactly the kinds of things that venture-backed companies are doing, including Circle.

The development of a more mature commercial industry, including one that follows governmental rules around money storage, money transmission, things like that, it's going to address a lot of that. Volatility issues similarly... we're in a tiny illiquid market and tiny illiquid markets are volatile because there isn't enough volume and velocity and liquidity to have a more stable pricing environment. I think what's really exciting is the number of more mature institutionally focused exchange platforms that are launching regulated exchanges in the US and London and Hong Kong and other markets, which I think will, over time, drive these digital assets and the trading and pricing and exchange of these assets to be more in line with other forms of electronic market places and systems that provide price stability, price discovery and the like.

That's something that's just going to take time and I think people would love to see it be consistent and gradual in it's kind of price movements but we're just in the early stages and until you see that institutional participation and there are more mature exchanges, you'll continue to see bigger movements than you see in some other, certainly currency markets, but other types of categories of tradable assets.

Companies like Circle or payment processing companies like BidPay can simplify the experience for consumers and merchants and remove volatility risk using bitcoin as a format and a network that has some benefits without exposing people's price volatility. And so that's something that I think will become more and more common as well.

Tapscott You mentioned these congressional hearings—the person you're talking about, was that Jennifer Shasky?

Allaire Yes.

Tapscott And I think she said the government welcomes this development in technology and I think that probably speaks more to the US climate of supporting entrepreneurship than anything else. But I think at the same time she said that she wanted anybody, any company or organization that's operating, you know, with bitcoin or in the bitcoin eco system, to submit to all of the same regulations that are in place for companies that deal in conventional currencies. And I heard you mention a couple of times about well-regulated companies gaining advantages precisely for some of those reasons. And I think you've said in the past that regulation is a necessary requirement for bitcoin and cryptocurrencies to gain mainstream traction. So on that, and correct me at any point if I'm misrepresenting what you've said in the past, but what is your view on government regulations specifically, how important do you think the role of governments will be in the development of bitcoin governance?

Allaire There are a lot of pieces to this. Actually what Shasky said, and also the guidance from the Treasury department, was actually a little different than that. Specifically the Treasury department issues rules saying exchangers, essentially those companies that are sort of the on- and off-ramps between the traditional banking system and digital currency, are subject to anti-money laundering laws and that's different than any company that is providing technology products or services in digital currency, and that's a really critical distinction. My co-founder and I just recently penned editorials that were directed at a response to the proposed Bit Licence in New York...

Tapscott Yes, I'm looking at it right now and I was about to point out you made that distinction...so sorry, continue.

Allaire It's a really critical distinction which is, I look at the innovation that's happening with crypto ledgers, with distributive trusts, with trust-less transactable assets – all these things are really powerful innovations and they go well beyond the scope of just the transmission of monetary value. They really reach into fundamental rethinking of the architecture of the Internet and even how services and applications and software and data live on the Internet. This is a computer science revolution and it's applicable in many areas and it's really, really critical that the intellectual property development and the development of the software or the protocols, the reference implementations, new standards, new stacks, whether it's commercial or open-source, etc., be free and unencumbered from regulation.

I think once you have businesses that are set up, that are explicitly custodians for consumer funds, and explicitly providing that liquidity and interaction with the existing banking system, there are some rules that are reasonable and those are rules that we expect to be subjected to, and we are already subjected to at the Federal level, and we'll see more at the State level, and we'll see likewise similar regimes emerge in other jurisdictions around the world. But it's really important that that intellectual property development be unencumbered.

I think the second thing is existing frameworks of policy that address, for example, financial crimes or money laundering or know-your-customer, that are applied and used on a worldwide basis in the existing banking system—these never contemplated cryptographic instruments and never contemplated digital instruments that can friction-lessly move anywhere on the planet. The response can't be "let's apply all the same rules that exist on existing financial transactions." It really ought to be "how can we innovate on top of distributive trusts and cryptographic ledgers to provide greater transparency, to provide more and more protections for consumers, so consumers are not subject to identity theft and credit card fraud and things like that."

And so the message for regulators is that this is a nascent industry, there ought to be some baseline rules that are not totally inconsistent with those that are applied to existing money services businesses, but that the industry needs time to grow and there are technical innovations to some of these issues that haven't even been thought of and developed and so it's important to leave enough room in the market for that kind of innovation to happen.

The other message is the nature of start-up disruption and technology, open-technology disruption that you see on the Internet and that's impacted some of the other industries. It really helps when you know thousands of companies in a process of creative destruction can iterate and innovate and build value, and in order to enable that without having an overly burdensome regulatory regime really requires really two things – a kind of principle faced approach to policy as opposed to a prescriptive approach, so say the principle is consumers should not be able to have their funds stolen or whatever that is, versus a specific prescriptive policy; but more importantly, what we call a kind of risk-based approach to an on-ramp that's really based on the size of the operation. And so small start-ups that are seed-funded should be able to get going and get a banking relationship, and get an auditing relationship, and get a cyber-security relationship but as they get beyond a certain scale have greater levels of oversight, greater level of reporting requirements and things like that.

So that's an important message that we are certainly conveying as we interact with governments around the world.

Tapscott I'm really glad you brought out the idea of a principle-based approach versus a prescriptive approach. The principles that you mention, do you think that they will come about strictly from government policy or do you think that those principles are something that can be formulated or at least discussed openly in a multi-stakeholder environment?

Allaire I would hope that they could be discussed openly in a multi-stakeholder environment. That certainly would lead to better outcomes in my opinion. And I think we're working towards that, I mean the volume of intelligent industry dialogue on this, the number of stakeholders that are focused on this, is really remarkable and I'd like to think that the bodies that are thinking about rule making or about interpretation of law, etc., would welcome that.

I mean you're seeing that in some other forums, so for example in the United States there is an organization called the Conference of State Bank Supervisors, it's basically all the commissioners of banking oversight from all across the US and they've created a task force which is aimed at looking at regulatory and rule making issues related to digital currency and they've solicited very broad participation and input into that, and that's a more open process. And things like that can occur but at the same time the digital currency industry needs to prepare to be able to react and put forward its own ideas for how this can move forward.

One interesting thing that happened, if you've been tracking this space, which I thought was very interesting, is when Mt Gox collapsed and it looked like it was negligence and lack of controls, lack of audit, lack of independent verification of funds and a number of things like this. The industry rallied around this concept of proof of reserves and that any exchange, any custodian could use cryptographic proof to demonstrate that the entity you're trusting with your private keys, or with your money, actually has it. And that's an example, instead of saying we need a government rule that requires a big four accounting firm to perform annual audits, the industry said "hey, look, we can actually do this with cryptographic proof" and that's even more powerful.

And so I think things like that can emerge from the industry in a number of areas that actually self-regulate and get out ahead of the concerns that exist with policy makers.

Tapscott In addition to the policy makers and entrepreneurs and private sector actors, like you, who are the other stakeholders in the bitcoin ecosystem?

Allaire Yes, you know I think...

Tapscott Or let me rephrase—we've seen a couple of non-governmental organizations emerge as advocates for a policy regarding bitcoin—there's one in the US, the Bitcoin Foundation for example, whose express goal is to promote user awareness, to promote policies that will allow bitcoin to spread around the world. I know people have varying views on that organization and their efficacy but I'm just curious about your perspective on other stakeholders outside of the private and public sector.

Allaire There's absolutely the need for advocacy organizations and by that I don't mean literally like lobbying firm, but advocacy organizations that focus attention both on broader market place awareness as well as kind of focused education aimed at industry and policy makers—I think there's a great role for

that. I think there are, as you know, emerging organizations that are trying to do it but I think we're going to see many things emerge that are aimed at that issue.

Another area... you'll see many organizations emerge that look to fill that role, not just in the US but in countries all around the world and it's been interesting to see almost every country in the world has a bitcoin association which is an industry association that's aimed at promoting bitcoin, educating government, etc., and that's really remarkable. You don't see organizations like that emerge so spontaneously around technology very often.

Tapscott And then on the subject of advocacy, watchdogs—outside of regulators themselves and self-regulation by industry—is there a role for watchdog networks or watchdogs to scrutinize the actions of powerful stakeholders in the ecosystem and ensure that all the players behave ethically and observe the key standards that have been set?

Allaire I guess I don't know enough about what kind of examples you'd give for that. Interestingly, you know in the US you have the historical institutions like Moody's and Standards and Poor's and the rating agencies, obviously they face their own controversy in the context of the sub-prime mortgage crisis, but the idea of having third parties that are not the auditors of the books or the government regulators that oversee, but actually third parties that are attempting to use publicly available information to assess the quality of a firm, its assets and its products. And you can see a kind of ratings agency type model emerge around cryptocurrency. I don't think you would look to a Moody's or a Standards and Poor's for that but you might see organizations emerge that are really out to look at rating the quality of products and services in the digital currency space. And they may even be able to use automated messaging for determining some of that.

Tapscott You provided your thoughts on the New York BitLicense proposal last week. How has the New York Department of Financial Services responded, or how do you think the dialogue has been with government—is it a two-way street at this point or is it more broadcast model from government to folks like yourself?

Allaire As both Sean and I mentioned in our pieces, we've had lots of meetings with state regulators, federal regulators, international regulators—it's been an on-going process of communicating, educating, etc. And I also, I think I made this point in my piece as well, there's a great deal of interest amongst regulators in this field and in this disruption and there's a desire to support this industry because of what it represents in terms of the potential benefits to consumers and businesses and to, as you say, developing markets.

And so there are the core themes and the core benefits that are expressed in those themes, and that's been, I think, positive. And a year ago when I was really getting started interacting with government, I didn't know what I would find, and it's been really... I've been pleased with that. I think there's a tendency sometimes in the bitcoin community to demonize government or regulators as people that

want to basically protect the existing system or protect the existing banks and I don't think that's a totally fair characterization.

But you know, specific to your question about response, there's no specific response that we've gotten from New York. I think they're very clearly in an information gathering mode, they're getting a lot of structured commentary back, some of it public communication, some of it specific communications directed to the department. We're providing formal and legal commentary as well, which I expect to go on the public record. So there's a lot of data they're going to get and I think they're going to most likely continue to engage with industry and academics and others and iterate on this.

Tapscott Yes, I'm personally of the view that any smart government will view this as a massive opportunity to attract investment. I know George Osborne, Chancellor of Exchequer in the UK, wants to make London the bitcoin center of the universe and I know that certain government actors in New York have said the same thing, you know everybody wants the next Silicon Valley and the fact that it's in the financial services industry makes it very appealing for big financial centers like London and New York. I'm personally of the view that they're just looking for ways to mitigate damage control and prevent any kind of embarrassment but also to foster innovation.

Allaire I think that's broadly correct.

Tapscott Is there anything you would add to that kind of thinking?

Allaire I think there are parts of the regulatory apparatus that have very, very specific things that they're responsible for and so they're maybe more narrowly focused in what they're commenting on or trying to accomplish. But I would say, you know, in general that's... that's accurate.

Tapscott Great. We're planning on publishing this paper in the fall. If I have any follow-up questions I hope I can reach out to you and your team?

Allaire Yes, sure. Absolutely.

Tapscott Well thanks a lot Jeremy, really appreciate it, appreciate your time and your insights and we'll certainly be in touch if we have any follow-up.

Allaire Great, thanks a lot.

* "[A Bitcoin Governance Network](#)" is a research project of the [Global Solution Networks](#) program.