



Written Testimony Of  
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*before*

The United States House of Representatives  
Committee on Financial Services

*Hearing on*

“Examining Facebook’s Proposed  
Cryptocurrency and Its Impact on Consumers,  
Investors, and the American Financial System”

Good afternoon Chairwoman Waters, Ranking Member McHenry, and Members of the Committee,

Thank you for the opportunity to address this important topic of how policymakers should approach the evolving questions surrounding cryptocurrency and its potential impact on consumers. This hearing comes at a critical time for the industry.

My name is Meltem Demirors, and I am Chief Strategy Officer of CoinShares,<sup>1</sup> which is a digital asset management firm. CoinShares operates across four jurisdictions<sup>2</sup> – including the United States; is engaged with multiple regulators –including those in the United States and the European Union; and creates, issues, and manages investment products that serve thousands of investors, including institutional and accredited<sup>3</sup> investors. Our goal is to provide regulated, risk-managed investment products and services by which investors can participate in the growth of a new asset class, which also happens to be a new technology.

Today, we manage \$800 million in assets on behalf of our investors. From our beginnings in 2013 to present day, we have collaborated closely with lawmakers, regulators, and innovators to pioneer these new products and services while also being a trusted partner and advisor to our clients.

I am here this afternoon to testify not only on behalf of CoinShares, but also as a long-standing member of the Bitcoin community and an investor who has been capitalizing and supporting this industry's growth. Over the last five years,

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<sup>1</sup> CoinShares Group is a digital asset manager with \$800 million in assets under management (as of July 16, 2019) across a suite of eight exchange-traded products (ETPs) and a series of private investment funds. The group serves a global investor base seeking exposure to the emerging crypto asset markets with a family of products which offer exposure to bitcoin and other emerging digital assets. The CoinShares platform offers investors convenient exposure to Bitcoin, Ether, Litecoin and XRP via a suite of investment-grade ETPs, all of which represent first of their kind products. CoinShares is backed by a team with deep experience in Exchange-Traded Products, Hedge Funds, Commodities, FX, Market Making and both active and passive investment in frontier markets. More information at [www.coinshares.co.uk](http://www.coinshares.co.uk).

<sup>2</sup> CoinShares operates in the Channel Islands, the UK, the United States, and Sweden.

<sup>3</sup> CoinShares refers to its investors as "sophisticated" which is a UK designation, and is most comparable to the US designation "accredited."

I have invested in, supported, and advised over 150 cryptocurrency focused projects and companies across 30 countries.<sup>4</sup>

I am pleased to have the opportunity to share my perspective and insight as an investor, advisor, advocate for, and user of cryptocurrencies. The views I present today are my own, and do not necessarily represent the views of CoinShares, my portfolio companies, or our investors.

My goals today are to:

1. Discuss the unique features of decentralized cryptocurrencies, mainly bitcoin;
2. Emphasize why bitcoin is very different from Libra; and
3. Outline what this means for the future of this important technology and the innovation already occurring here in the United States.

## **Why Bitcoin is Unique**

I would like to begin by highlighting the features of bitcoin — the first, best-known, most valuable and most widely established cryptocurrency.

Bitcoin is three things:

- Bitcoin is a technology, as expressed by the bitcoin protocol which is the computer code that defines the rules and parameters of the Bitcoin network and its operation. The Bitcoin protocol is open-source, meaning anyone can read and review it, and anyone can run it. In addition, via a process known as a “Bitcoin Improvement Proposal” or “BIP,” anyone can suggest changes to the protocol by means of a public review process that is informal and follows existing and widely known open-source

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<sup>4</sup> From 2015 to early 2018, investments via Digital Currency Group, a digital currency and blockchain technology focused corporation making balance sheet investments, and based in New York City– more information at [www.dcg.co](http://www.dcg.co), and from 2018 – 2019, via personal firm Shiny Pony LLC, where I advise corporations, investors, and companies and also invest in startups and digital currencies with my own capital. More information and disclaimers at [www.meltemdemirors.com](http://www.meltemdemirors.com).

software development practices, similar to those used in the development of the Internet.<sup>5</sup>

- Bitcoin is a network that is formed by computers running this open-source code, which are called nodes. The Bitcoin network is supported by individuals, companies, and organizations that run the bitcoin code and maintain the Bitcoin blockchain, which is a ledger of all activity (i.e. transactions) that happened on the Bitcoin network.
- Lastly, bitcoin is a cryptocurrency. It is used as both a store of value and medium of exchange (in spite of its volatility) and has been likened by many to “digital gold.”<sup>6</sup> There are thousands of companies that enable their users to exchange, store, and transfer bitcoin; and many more that enable their users to utilize bitcoin (the cryptocurrency) and the underlying Bitcoin network in a variety of ways that serve consumers, enterprises, and even governments.

Bitcoin as a technology is not regulated. Much like the Internet, the Bitcoin network can be considered a public good.<sup>7</sup>

However, it is very important to establish that the companies being built to provide products and services on top of Bitcoin are subject to applicable regulation in their respective jurisdictions; just as the companies building on the Internet to provide products and services to their customers are subject to the regulatory oversight and applicable laws of the United States. In the United States, Bitcoin companies interact primarily with the CFTC, the SEC, the IRS, OFAC, FINCEN, law enforcement, state banking regulators, and a host of other policy making bodies and enforcement agencies.

In my experience over the last five years, companies operating in the US or serving US customers continually spend millions of dollars - vast sums for early

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<sup>5</sup> These practices, called Request for Comments, or RFCs, continue to be used. For further reference, please refer to the Internet Society's piece titled “Celebrating 50 Years of RFCs that Define How the Internet Works” which can be found at <https://www.internetsociety.org/blog/2019/04/celebrating-50-years-of-the-rfcs-that-define-how-the-internet-works/>

<sup>6</sup> See comments made by Federal Reserve Chairman Jerome Powell on July 10, 2019, as reported by CNBC at <https://www.cnbc.com/2019/07/10/powell-says-facebooks-libra-cryptocurrency-raises-serious-concerns-such-as-money-laundering.html>

<sup>7</sup> Public goods, in this usage, are defined as products or services that are non-excludable, nondepletable, and non-rivalrous. A good is non-excludable if one cannot exclude individuals from enjoying its benefits when the good is provided. A good is nondepletable if one individual's enjoyment of the good does not diminish the amount of the good available to others.

stage startups - on engaging regulators, obtaining the required licenses, and educating and engaging policymakers. For many companies, compliance and legal expenditures exceed any other budget line item, sometimes even exceeding that of engineering. The line between what is and is not considered regulated activity is often blurred. Note this is not due to any fault by the regulators nor companies themselves - but rather, due to the fact that this technology introduces new models for representing, exchanging, and transferring value that did not exist before. I commend the efforts of the CFTC and SEC, who have pro-actively engaged with the industry to discuss these topics, and am encouraged to see this hearing further exploring this important issue.

In the last five years, over \$6.2 billion has been deployed into nearly 1,000 companies<sup>8</sup> building on top of cryptocurrency networks, primarily Bitcoin. While the Bitcoin network is global in nature, companies tend to be localized in specific jurisdictions.

In my five years as a venture capital investor in Bitcoin companies, nearly 70% of the companies I have invested in have been incorporated in, and operated from, the United States. The reason the bulk of the capital invested has gone to US companies is in large part due to the fact that the US enjoys a robust, well-developed venture capital and private equity market, and boasts a long track record as a place where innovators can build businesses. The 150 companies I have invested in and worked with now employ nearly 5,000 people in cities including San Francisco, New York, Boulder, Austin, Atlanta, but also London, Singapore, Hong Kong, and Berlin.<sup>9</sup>

In the last few years, we have seen the emergence of a confusing, if not concerning trend -- different countries do, and will, regulate cryptocurrency differently. For many cryptocurrency companies, the complexity of the regulatory environment has become unmanageable, prohibitively expensive, and highly politicized. The traditional approach of a 'regulatory perimeter'

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<sup>8</sup> CoinShares Research conducted on venture investing activity, sourced from a variety of industry resources, public data sources, and private data. Please contact CoinShares for further information, via our website at [www.coinshares.co.uk](http://www.coinshares.co.uk)

<sup>9</sup> Number of employees is an estimate based on available proprietary data from portfolio companies, often provided via investor updates, and public data sources including news, LinkedIn, and other sources.

which historically has been used to apply jurisdiction to companies and users has become challenging to define in a digital world that is not constrained by the same physical boundaries.

In many parts of the world, a lack of clear regulation and lack of history of consistent enforcement of these regulations has led to a proliferation of companies and projects that are seeking refuge in jurisdictions known to have a traditionally 'lighter regulatory touch.' In addition, there are a number of countries (e.g. Switzerland) that are successfully seeking to attract companies with regulatory frameworks and legislation designed to provide certainty for cryptocurrency companies, as well as coordinated regulatory assessment of new business ventures. In this respect, I refer the committee to the Swiss Federal Counsel's legal framework for distributed ledger technology and blockchain, which has contributed to Switzerland's status as a place for cryptocurrency and blockchain technology entrepreneurs and companies to establish themselves.<sup>10</sup>

By contrast, I have seen companies who have chosen to build their core business in the US become ensnared in a lack of regulatory clarity and subsequently, some have chosen to focus their growth in other jurisdictions. In recent months, companies have shut down parts of their United States business due to delays in obtaining licenses or necessary regulatory status. Some companies have had to raise additional capital at unfavorable terms to pay for unexpected legal bills resulting from the complexity of navigating this uncertain landscape.

In addition, large corporations and enterprises with robust balance sheets and capital war-chests have begun to look at the bitcoin ecosystem and started replicating the business models of these startups – but with all of the advantages of their size and status behind them – an extension of the “Embrace, Extend, Extinguish” strategy Microsoft famously pioneered in the late 1990s.<sup>11</sup>

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<sup>10</sup> See [https://www.mme.ch/fileadmin/files/documents/Publikationen/2018/181207\\_Bericht\\_Bundesrat\\_Blockchain\\_Engl.pdf](https://www.mme.ch/fileadmin/files/documents/Publikationen/2018/181207_Bericht_Bundesrat_Blockchain_Engl.pdf)

<sup>11</sup> For further details, please see <https://web.archive.org/web/20180523190053/https://www.economist.com/node/298112>

To this end, we are at the beginning of a new wave of interest in bitcoin and cryptocurrencies. The concept of cryptocurrency, which has been popularized and best implemented by Bitcoin, has inspired countless imitations which borrow some of the features of cryptocurrency, but are in fact not cryptocurrencies.

Imitation is the most sincere form of flattery, but it is important to distinguish that Libra is not a cryptocurrency. There is a clear line separating Libra, Facebook's self-styled "cryptocurrency" from bitcoin and other cryptocurrencies that share the features I articulate below.

### **Libra is not a Cryptocurrency**

Anyone can create something and call it a cryptocurrency. In the context of Facebook's Libra project, the word cryptocurrency is being used very loosely, and it conflates two things which are fundamentally different. The difference in design between Bitcoin and Libra means they pose very different risks to the public, and these risks and merits should be assessed independently. Please note that the intent of my testimony is not intended to pass subjective judgment on Libra as "good" or "bad." Rather, I aim to highlight the core differences between bitcoin - a cryptocurrency - and Libra - Facebook's proposed digital token - and to outline why this distinction is critical to designing and implementing an effective regulatory framework.

#### *Decentralized v Highly Centralized*

- Bitcoin is decentralized, which is an esoteric metric, but in practice, it means no one entity or group of individuals has the ability to block or reverse transactions.
- In contrast, Libra is highly centralized. It is a project that was conceived, designed, and launched by the Facebook corporation and its employees - which proposes to keep a multi-billion dollar fund to back the currency, and to manage the code for the network and control access via a consortium that currently consists of 28 entities. Note that some of these entities in Libra's governing body are investors in other members of the

consortium, large owners of Facebook shares, or otherwise commercially affiliated with Facebook and its executives. In Libra's proposed design, this consortium will have the ability to block and censor transactions.

### *Asset v Asset Backed*

- Bitcoin is its own asset. It is best characterized as a commodity backed by its own programmatic scarcity and demand for it. As bitcoin is not backed by other assets, there is no entity that holds any assets that give bitcoin its value. Furthermore, in bitcoin's design, everyone controls their own money. Some holders may choose to use third-party products and services such as custodial wallets, but bitcoin does not require third-party regulated entities such as banks to hold assets. In short, bitcoin is an asset that is nobody else's liability.
- In contrast, Libra is backed by assets – notably a pool of currencies and interest-bearing instruments that is managed by the Libra consortium. Asset management is an activity which has components that are typically regulated both here in the United States and abroad.
- Unlike Bitcoin, the Libra Association is an entity which produces revenue and may provide distributions or dividends as a result of managing a pool of assets (akin to a fund) which has two classes of shares - one class of shares that delivers the principal to Libra token holders, and one class of shares that delivers earned interest and fees to investors and consortium members.
- The assets backing Libra, which are proposed to be a mix of currencies and interest-bearing instruments, are assets which will be stored in bank accounts and which rely on third-party intermediaries for purchases, storage, and disposition, including banks or brokerage firms. This introduces multiple types of risk<sup>12</sup> to Libra holders, who must rely on these intermediaries and the Libra consortium's ability to maintain access to the funds backing their principal.

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<sup>12</sup> Among the types of risk present are liquidity risk, settlement risk on releasing the underlying assets together; as well as counterparty risk posed by custodians and the issuer of any asset products



## *Permission-less v Permissioned*

- Bitcoin is permission-less, meaning anyone has the ability to run nodes on the network; to participate in transaction validation; or to build products, services, and applications leveraging the protocol or the network. Anyone can enter and exit these networks without requiring permission, so long as they follow the rules set forth in the protocol.
- In contrast, Libra is permissioned. The consortium governing Libra will determine the code, the consortium will run the nodes in the network, and no other entity will be able to do so without approval from the consortium of members, which are proposed to number 100 to start. Furthermore, users can only enter and exit these networks by complying with the rules of the Libra platform.
- Bitcoin doesn't have custodial risk at the network level. Companies that provide products and services to bitcoin holders and users provide clear terms of service that comply with local regulation and set forth when and how funds may be frozen or seized.
- In contrast, the Libra network is controlled by a private group of members who will control who can access the network.
- Lastly, from a competitive perspective, the Bitcoin network now supports thousands of companies around the world, in similar manner as the internet served as a backbone for innovation over the last two decades. These companies are owned by entrepreneurs and investors, and in turn employ anywhere from less than a dozen to thousands of employees and provide services to millions of customers around the world. These companies form the backbone of the Bitcoin industry and contribute to economic growth and continued technology innovation within Bitcoin's open system. Bitcoin is driven by a culture of volunteerism, given its open-source development and open network.
- In contrast, Libra benefits only one entity, Facebook, and the companies that have been chosen, numbering 28 to date, to be a part of its Libra

consortium. Note this consortium is based in Switzerland—not the United States. In testimony delivered by Facebook, David Marcus, who is leading the Libra effort, clearly stated that “if [Libra] is successful, Facebook will benefit from more commerce across the family of apps.”<sup>13</sup> While Libra may have aspirations to serve a broader, more altruistic purpose, its current implementation and design are seemingly designed and implemented benefit Facebook and a small group of Libra consortium members.

### **Why This Matters**

I am not here to comment on the merits of Libra as a business endeavor of the Facebook corporation or its associates selected to participate in the consortium backing Libra. The Facebook corporation is in the business of delivering value to shareholders. It does so primarily by monetizing its portfolio of web applications to serve advertising to their users, and Facebook has every right to continue to expand and innovate on their business products and services as permitted under United States and other applicable laws.

Here is what I must comment on: while Libra may represent an exciting innovation for the Facebook platform and its ability to provide new products and services to its customers and that of its affiliates or associates in the Libra consortium; it simply cannot be compared to Bitcoin, due to large fundamental differences.

To be clear, Libra may have its own merits, but they should be viewed and evaluated in context of the facts, and independent of comparison to bitcoin and cryptocurrencies.

The concept of cryptocurrency, which has been best exemplified by bitcoin, has reached a point of inevitability. It is inevitable that Bitcoin's technology, the Bitcoin network, and the companies and applications supporting the bitcoin ecosystem will continue to grow. One need only look at the bitcoin community

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<sup>13</sup> See testimony provided by David Marcus on July 16, 2019 in front of the Senate Banking, Housing, and Urban Affairs Committee SH-216.

to see the passion, energy, and capital being contributed to bitcoin's growth on a daily basis.

The opportunity before us is to rise to the challenges of making it work in a way that's responsible, instead of trying to put the proverbial 'toothpaste back in the tube.'

Just as the Internet is an open, 'permission-less' technology on which anyone can build and innovate, it is critical that Bitcoin innovation remain open, 'permission-less,' and accessible. Bitcoin companies in the United States serve tens of millions of customers, facilitate billions of dollars of regulated, legal commercial activity, and employ thousands of people both within their organizations and as professional service providers and consultants. The bitcoin community is global in nature, but the bitcoin economy requires 'on' and 'off-ramps' to thrive.

We should endeavor to do what is necessary to keep these on and off-ramps here in the United States, and regulated under United States law, where they benefit the American people and the American economy – not in a foreign jurisdiction, such as Switzerland.

To refer back to the analogy of the internet, the development of this new technology and global, open network helped level the playing field between large businesses and small, and to create tangible benefits for consumers. With the advent of cost-effective web-based services and the ability to reach a global audience, small companies around the world now compete with large multi-national corporations; and sometimes disrupt entire industries in the case of Amazon and countless others. Through a series of challenges, the internet has largely been preserved as a medium for free publishing and open innovation.

The internet has created a tremendous amount of economic value in the US economy and globally, and has fostered innovation, entrepreneurship, and productivity, and broken down barriers to entry across a variety of markets and industries, while also lowering the cost of access and expanding choice for consumers.

The internet is an economic powerhouse that drives US competitiveness and productivity. The digital economy,<sup>14</sup> powered by the internet, drives Gross Domestic Product (GDP) and also offers countless intangible benefits to small businesses, consumers, institutions, and governments. According to the Bureau of Economic Analysis, the digital economy has been a bright spot in context of the United States economy. The real value added to the US economy by the digital economy grew at an average annual rate of 9.9 percent per year from 1998 to 2017, compared to 2.3 percent growth in the overall economy. The digital economy accounted for 6.9 percent (\$1,351 billion) of current-dollar gross domestic product (GDP) in 2017.<sup>15</sup>

Facebook is, arguably, the only platform in the world which can reach 2.5 billion users instantly. This gives Facebook tremendous power, but also tremendous opportunity and responsibility. I commend the efforts of the Facebook corporation and the aspirational goals set forth in its Libra effort.<sup>16</sup> However, the Facebook network is not a public good. Its network is closed, owned by the Facebook corporation, and built to capture value for Facebook and its shareholders – not its community members, not the general public, and certainly not small businesses and startups. These parties may ultimately benefit from Facebook’s efforts, but it is unclear as to how Libra will enable this.

The internet brought with it the democratization of information. Bitcoin and cryptocurrency networks are a medium that could enable the democratization of value exchange and transaction – enabling small businesses and individuals to get access to a wide range of new financial products and services and to usher in new models for the exchanging of value. It shouldn’t be only large firms, their investors and affiliates, and existing financial institutions that benefit from this technology. Small businesses and consumers should be able

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<sup>14</sup> The United States Department of Commerce’s Bureau of Economic Analysis is working to develop tools to better capture the effects of fast-changing technologies on the U.S. economy and on global supply chains. The project seeks to calculate the digital economy’s contribution to U.S. GDP, improve measures of high-tech goods and services, and offer a more complete picture of international trade. Other goals are to advance research for digital goods and services, the sharing economy and free digital content, and to explore economic measures beyond GDP to better understand Americans’ well-being. More at <https://www.bea.gov/data/special-topics/digital-economy>

<sup>15</sup> See the Bureau of Economic Analysis “Measuring the Digital Economy: An Update Incorporating Data from the 2018 Comprehensive Update of the Industry Economic Accounts” which can be found at [https://www.bea.gov/system/files/2019-04/digital-economy-report-update-april-2019\\_1.pdf](https://www.bea.gov/system/files/2019-04/digital-economy-report-update-april-2019_1.pdf)

<sup>16</sup> See the Libra whitepaper, which can be found at <https://libra.org/en-US/white-paper/#introducing-libra>

to participate, and should benefit from this new innovation, and participate in its development, growth, and evolution.

The decisions you are weighing now will undoubtedly determine the future of open, 'permission-less' technology innovation and capital formation here in the United States. That future is not five or ten years away; that future is here and now.

I urge policymakers and regulators alike to treat bitcoin and other cryptocurrencies as open, permission-less technologies that will support American growth, and to treat Libra in the context of the facts – as a private, for-profit effort led by a corporation in collaboration with a group of private operators and investors, and custodialing potentially billions of dollars of the public's money. Libra may be the first of this privately-controlled business model, but I expect there will be many other corporations who attempt to seize on the popularity and benefits of Bitcoin to market, promote, and expand their offerings. I ask you to remember that these things are not Bitcoin and are not cryptocurrencies. To treat them as such would be a mistake. I urge the Members of this Committee to maintain this clear line now and in the future.

I thank you for your time, and in closing, as the Committee deliberates Libra and other digital assets which are not cryptocurrencies, I urge all members to consider:

- The benefits of bitcoin and decentralized, open, permission-less cryptocurrency networks that foster innovation, economic growth, and the development of new industries;
- That bitcoin is fundamentally different from Libra and other digitized assets issued by corporations and control companies; and that these other digital assets be treated in a manner consistent with what they are, not what they aim to someday be.
- To create a regulatory environment that will allow and encourage bitcoin and the innovation happening here in America to continue to flourish through a clear delineation between fact and marketing fiction.

As an American citizen and an investor and business operator in the United States, I am pleased to see the Committee focusing on these topics and separating cryptocurrencies like bitcoin from corporate efforts like Libra.

Your continued leadership encourages American entrepreneurs, companies, and investors to continue supporting the development of these new technologies, while at the same time providing the strong regulatory oversight and investor protections for which the United States is known, and what has made the United States the largest market for technology innovation.

I appreciate your time and very much look forward to your questions.