August 20, 2014

VIA EMAIL

Superintendent Benjamin M. Lawsky
cc: Dana V. Syracuse, Office of General Counsel
New York State Department of Financial Services
One State Street
New York, NY 10004-1511

Dear Superintendent Lawsky:

The three main Chinese Bitcoin exchanges BTC China, Huobi and OKCoin (collectively, "we") hereby submit our joint comments on the Regulation of the Conduct of Virtual Currency Businesses proposed by the New York State Department of Financial Services (the "NYDFS") on July 23, 2014 (the "BitLicense Proposal").

We express our great appreciation for the historic move by you and the NYDFS to propose a tailored regulatory framework for the virtual currency industry. While we are companies organized under the laws of the People's Republic of China, we believe that it is not only appropriate, but also necessary for us to express our thoughts on certain aspects of the BitLicense Proposal because the blockchain protocol is decentralized, because regulations in New York have long been given great deference and are modeled after by regulators around the world, and because the BitLicense Proposal as drafted appears to cover us.

As the enclosed comments discuss in detail, we believe (i) the BitLicense regime should cover only virtual currency businesses with meaningful New York connection, (ii) a licensee's affiliates should only be required to disclose books and records to the NYDFS to the extent such records pertain to the licensee's operations, and (iii) the necessity of performing enhanced due diligence on a customer should turn on whether the customer and the applicable licensee are from the same jurisdiction, and not on whether the customer is a U.S. person. Our comments address select issues of particular concerns to international virtual currency businesses and by no means represent an exhaustive analysis. We leave the task of comprehensively responding to the BitLicense Proposal in the capable hands of our U.S. counterparts, who are in a better position to do so.

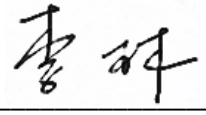
Along with virtual currency businesses in the United States and elsewhere in the world, we look forward to assisting the NYDFS in its endeavor to make the BitLicense regime an exemplary framework that thwarts financial crimes, safeguards customer assets and unleashes the enormous potential virtual currency and its underlying blockchain protocol have to offer.

Sincerely,

BTC China

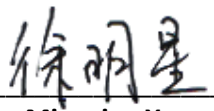
Bobby Lee
CEO of BTC China

Huobi



Lin Li
CEO of Huobi

OKCoin



Mingxing Xu
CEO of OKCoin

JOINT COMMENTS

to

New York State Department of Financial Services on the Proposed Regulation of the Conduct of Virtual Currency Businesses

by

BTC China	**Huobi**	**OKCoin**
526 Gaoxiang Ring Road Shanghai, China 200137	9 Shangdi Three Road Beijing, China 100085	35 Shangdi East Road Beijing, China 100085

August 20, 2014

BTC China, Huobi and OKCoin (collectively, the "Companies") are entities organized under the laws of the People's Republic of China ("China") and primarily offer exchange services of fiat currency into and from virtual currency. As of the date hereof, the Companies serve Chinese customers almost exclusively.

In accordance with Section 202 of the New York State Administrative Procedural Act and the public comment submission procedures specified in the Rulemaking Notice, 36 N.Y. Reg. 14 (July 23, 2014), the Companies hereby respectfully submit their joint comments on the Regulation of the Conduct of Virtual Currency Businesses proposed by the New York State Department of Financial Services (the "NYDFS") on July 23, 2014 (the "BitLicense Proposal"). Section references are to the BitLicense Proposal unless otherwise specified.

1. The BitLicense regime should cover only virtual currency businesses with meaningful connection to the State of New York.

By defining "virtual currency business activity" as the conduct of certain activities with "a" New York resident, the BitLicense Proposal would arguably subject the Companies to licensing requirement even if they engage in trivial amounts of business with New York residents. A single New York customer would be sufficient to subject each of the Companies to the full suite of regulatory requirements under the BitLicense Proposal. § 200.2(n).

This provision could severely impede the development of virtual currency businesses outside of New York. If the proposal were already in effect, without the NYDFS's prior approval, BTC China could not have rolled out its mobile exchange for virtual currency in China; Huobi could not have acquired a Chinese provider of virtual currency storage services; and OKCoin could not have launched an international version of its trading platform. §§ 200.10–11. The Companies would also be required to, among other things, submit as a part of their BitLicense

applications fingerprints of all employees (most of whom are Chinese citizens) to the U.S. Federal Bureau of Investigation. § 200.4(a)(5).

The Companies agree that some virtual currency businesses could and should be subject to the NYDFS's licensing requirement even without being physically present in New York. See, e.g., N.Y. Banking Law § 641; *Industry Letter: Money Transmitters with No Physical Presence in New York*, the NYDFS (March 31, 2011) (the "Industry Letter"). Nonetheless, the Companies believe it is not the NYDFS's intention to regulate international businesses that have only inconsequential contacts with New York, as doing so may "offend the traditional notions of fair play and substantial justice." See *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).

Accordingly, the Companies hereby respectfully request the NYDFS to revise the definition of "virtual currency business activity" to clarify that BitLicenses are only required from virtual currency businesses that have availed themselves of the privilege of conducting activities within New York, thus invoking the benefits and protections of New York laws. See *Hanson v. Denkcla*, 357 U.S. 235 (1958). The Companies note that this approach is consistent with the NYDFS's position on the applicability of New York's money transmitter licensing requirement: all key cases relied upon by the NYDFS in the Industry Letter analyze businesses' degree of activities in a state in determining whether the state's exercise of regulatory power is proper. See, e.g., *Aldens, Inc. v. La Follette*, 552 F.2d 745 (7th Cir. 1975) ("substantive due process imposes *a floor on the nexus* between a person and his practices relative to a state which will be sufficient to support legislation running against him") (emphasis added).

2. A licensee's affiliates should have no obligation to allow the NYDFS to examine their respective facilities, books and records that are unrelated to the licensee's operations.

The BitLicense Proposal provides that "each Licensee shall provide the Department, upon request, immediate access to all facilities, books, records, documents, or other information maintained by the Licensee *or its Affiliates*, wherever located." § 200.12(b) (emphasis added); see also § 200.13(d). These provisions would essentially grant the NYDFS the power to examine a licensee's entire corporate family on both individual and consolidated bases. The NYDFS has no comparable right when examining New York-licensed money transmitters. See 3 N.Y.C.R.R. §§ 406.7 & 406.9.

For an international business that both owns a New York-licensed virtual currency subsidiary and operates an unrelated line of business in its home country through a domestic subsidiary, the provision would permit the NYDFS to examine the domestic subsidiary even if the New York virtual currency subsidiary has no dealing with the domestic subsidiary. The provision would also permit the NYDFS to examine a large international holding company's books and records as a result of the company's control of a tiny virtual currency subsidiary that is negligible in the grand scheme of things. The internal records of such holding company may not relate to either New York or virtual currency, and may be highly proprietary and confidential.

The Companies acknowledge the NYDFS's concerns that a licensee may use affiliate transactions or inter-affiliate outsourcing arrangements to circumvent regulation. But the NYDFS could properly address such concerns by requiring the affiliates of a licensee to provide information that relate, either directly or indirectly, to the licensee.

Therefore, the Companies hereby respectfully request the NYDFS to revise §§ 200.12(b) and 200.13(d) such that a licensee should have to provide, or cause its affiliate to provide, its affiliates' books and records to extent that they relate directly or indirectly to the licensee. This way, while schemes structured among affiliates to circumvent regulation could still be detected, a legitimate business would not have to worry about exposing all internal records, trade secrets and private customer information as a result of controlling a small BitLicense holder.

3. The test for whether the performance of enhanced due diligence ("EDD") on a customer is necessary should turn on whether the customer and the applicable licensee are from the same jurisdiction instead of whether or not the customer is a U.S. person.

Section 200.15(g)(2) of the BitLicense Proposal requires licensees to perform EDD on non-U.S. customers. This provision effectively forces non-U.S. licensees to always perform EDD instead of ordinary due diligence, yet fails to require EDD in some cases where it might be appropriate.

Specifically, the provision as it stands would not require an Australian licensee to perform EDD on a prospective U.S. customer even if the licensee may not be familiar with AML/CFT risks that U.S. persons present. The provision will, however, mandate EDD when the licensee deals with Australians, the AML/CFT risks of whom the licensee as an Australian business presumably understands better.

These outcomes are likely unintentional. The NYDFS's reasoning behind the BitLicense Proposal's requirement for EDD on non-U.S. persons is perhaps that a licensee is less likely to have a thorough understanding of "foreign" customers due to the lack of background knowledge. But conceivably, at least some licensees will be non-U.S. persons. And for them, it is the U.S. customers that are harder to "know."

Accordingly, the Companies hereby respectfully request the NYDFS to revise § 200.15(g)(2) so that what triggers EDD would be whether a customer is from the same country as the licensee, and not whether the customer is a U.S. person or not. In particular, barring other risk factors, ordinary due diligence should suffice if both the licensee and the customer are from a country where the Financial Action Task Force identifies no AML/CFT strategic deficiency or weakness.

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