

Digital currencies a big test for regulators: NY banking czar

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New York's powerful banking regulator Benjamin Lawsky said Wednesday that digital currencies like Bitcoin pose a major challenge, but should not be stifled.

Lawsky, the outgoing superintendent of the state's Department of Financial Services, said finance industry watchdogs have to accept that cyber-currencies are here to stay, and could have "a profound impact" on payments technologies and the financial system over the coming decade.

"Financial regulators and policymakers need to recognize that when it comes to digital currencies and other new payments technology, the genie is already out of the bottle."

"The pace of change is only going to accelerate in the years to come. And regulators need to be ready to meet that challenge."

Lawsky, who polices one of the world's most powerful banking centers, Wall Street, has pushed quickly to set up regulations for companies dealing with digital currencies, on the basis that like banks they are involved in money transfers.

The final version of those regulations was released Wednesday. Under the tentative version last month, DFS issued its first license for a Bitcoin exchange, to New York City-based itBit Trust Co.

Speaking to a technology forum of the Financial Services Roundtable in Washington, Lawsky said he didn't even know what a Bitcoin was before 2013.

"At first, the whole concept struck me as a little bizarre," he said.

But over time he recognized its importance and the need to regulate it like banks, to protect consumers and battle fraud.

Lawsky held back from predicting how the industry would evolve, though noting that the cryptography which underlies the Bitcoin system represented a "major advance" that "could have significant applications

in a multitude of areas."

For that reason, he said, "The emergence of digital currency and other new forms of payments technology represent an important test for financial regulators."

"There might be—at the very least—a kernel of something here that has a profound impact on the future of payments technology and the financial system."

"Regulators are not always the experts on such matters, but my gut now is that it's likely," he said.

At the same time, "We should not react so harshly that we doom promising new technologies before they get out of the cradle."

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