

**Blockchain Finance Subcommittee
Meeting Minutes**

**January 17, 2020
10AM - 1:30PM**

1. Call to Order and Establishment of a Quorum

Facilitator Orit Kalman called the meeting to order at approximately 10:16AM

Working Group Members Present at meeting beginning:

- Ben Bartlett
- Audrey Chaing
- Michelle Neitz

Vote #1: Voting Arshad to the subcommittee

- Ben Bartlett: Yes
- Audrey Chaing: Yes
- Liz Chien: Not present
- Michelle Neitz: Yes

Vote #2: Ben Bartlett be the lead member of the subgroup

- Ben Bartlett: Yes
- Audrey Chaing: Yes
- Liz Chien: Not present
- Michelle Neitz: Yes
- Arshad Noor: Yes

ROLL CALL: Quorum established

No public comment on adding Arshad Noor to the group or having Ben Bartlett be the lead

2. Introduction/Subcommittee Process

- Reminder of who is responsible for what:
 - Michele Neitz: Benefits and business permit licenses
 - Audrey Chaing: Banking section
 - Ben Bartlett: Banking section of cannabis payments and taxes
 - Arshad Noor: Remittances and taxes subgroup

- *No public comments on the process*

- *Liz Chien joins the meeting at 10:34AM*

3. Presentations and Discussions on each topic of the Finance Category

- **Benefits (Unemployment, Workers Comp, Medi-Cal, SNAP: Presentation by Michele Neitz**
 - We shouldn't experiment with blockchain on these because people rely on these services. This should not serve as a pilot project. Michele makes this recommendation based on conversations with conversations from Cal HHS
 - Two departments that have the biggest impact on Californians are EDD and Franchise Tax Board. We should not test blockchain out on these.
 - Michele is interested conducting further interviews with smaller departments to research good pilots
 - *Public comment: Department of General Services (GSA) is interested perhaps using blockchain for auditing purposes.*
 - Michele will look into this use case
- **Taxes: Liz and Ben**
 - Blockchain could be hugely helpful for anything that uses manual (handwritten) applications, approval, permitting, etc.
 - Blockchain could be used to track the many property taxes that are levied by counties, municipalities, sub-municipalities, etc.
 - How to correct errors? Initial error will remain but can be corrected by amendment (per public comment).
 - Anything involving currency (USD) will still rely on current banking systems (ACH, SWIFT, e.g.)
 - Arshad: I agree with Liz that existing money transfer systems are a bit archaic, but the EU has passed a regulation called PSD-2 last year. (Payment Services Directive) They've identified that some of the largest banks in the EU hold substantial data on EU citizens (remittances, for example). This was hard for small companies to innovate in this space b/c they didn't have data. PSD-2 forced the big banks to open up data to smaller fintech companies, with the consent of consumer. Smaller companies can then innovate much more.
 - PSD-2 provided a regulatory framework for innovation without having to use SWIFT
 - California *could* open up financial services / remittances by passing something similar to PSD
 - Liz: I find Arshad's idea alarming. There's already so much misuse and mismanagement of consumer data. Consumer consent is problematic too--no one really knows what they're consenting to.
 - We shouldn't allow more profit-seeking companies to get ahold of this data

- We already have a lot of private companies who are able to provide some fintech services without holding all of these consumer data. These companies are also bound by certain regulations.
- Ben: The general trend is to give power back to consumers with their data. But Arshad is right that there's probably a way to improve the way state transmits money back to citizens
- Liz: It honestly probably wouldn't be that hard for the state to build their own blockchain platform since many existing blockchain technologies are open source
 - Token-based system would be helpful for the state. [Ben agrees with a token-based system]
 - Public commenter warns this is a bad idea, since users are likely to lose their keys.
- Liz: At a high-level, having the state transact with its own coin allows for greater transparency of how taxpayer \$\$ are being used. The state can also better track and identify fraud. This is hard to do with their currently-used EFT system
 - Arshad disagrees with the benefits of having a state stablecoin
 - *Orit tables this debate for future*
- Liz: To flesh this out, we need to hear expert testimony from other stakeholders including: (1) the current administrators in tax agencies, (2) the state auditors, and (3) IT folks at various state tax agencies.
 - Also, looking at what have other states/countries put in place? Look to Ohio as an example.
 - What additional information do we need to get a full picture of the problem, as well as coming up with potential solutions? See *Taxation outline from Liz to look at the list of questions they've come up with*
- Michele: On the idea of a state stablecoin, if CA was going to build its own blockchain, we need to figure out whether its permissionless or not
- Arshad: I have a feeling this may be one of the most complex areas for the state to address in terms of blockchain. I can't think of any use case that would affect the state more other than this particular area. I just don't know if there's enough time to research the issues with a tax use case.
 - Liz: But for an initial pilot, we could pick a small tax (like Sales & Use Tax). Or, we can pick one of the many small taxes -- like cannabis.
 - Ben: Cannabis might be a great pilot because it's a new tax--not a lot of interest groups/stakeholders that will be opposed to changing the status quo. They might also be more willing to try something new.
 - Any pilot would have to run concurrently with the status quo system
 - Arshad: political issues related to cannabis might complicate a pilot in this area. A "boring" tax might be more useful, easier.
- Liz: Perhaps we should create a list of the various permits, and the associated taxes with certain permits

- *Public comment:*
 - *We need to be careful with conflating taxes with fees and permits*
 - *If there's a way to automate transactions of assessor-recorders offices, that'd be hugely helpful. Lots of \$\$ is lost by the state due to their manual process*
 - *Talk to the newly-elected assessor-recorder of Alameda County, Phong La:*
<https://www.acgov.org/assessor/aboutus/index.htm>
 - *Is there a list of private companies that we could talk to?*
 - Liz: We can put that list together and make that list publicly available, and ask for public comment
 - Ben: GitHub has offered to help us
- *Next steps [Orit]*
 - *1. Talk to experts*
 - *2. Research points of abuse in state tax systems*
 - *3. Return to the discussion of a state stablecoin coin*
 - *4. Identify appropriate pilot projects as examples to better understand blockchain uses*
 - *5. Provide a list of blockchain technical experts that we can provide to the public and get input on*
 - Arshad: invites opposing points of view regarding CA creating a stable coin or token. [Several commenters online disagree with the idea of creating such a coin.]
 - We should probably talk to someone at the Federal Reserve, since they're also looking at this topic as well. See report here, e.g.:
<https://www.federalreserve.gov/newsevents/speech/brainard20191016a.htm>
 - *Arshad will research someone without financial interests in the existing system who can provide an opposing view of a state coin. This could be an academic (economist? Lawyer? Engineer?)*
- **Remittances: Liz**
 - Expensive. Fees on sending and receiving end. Not always reliable; single-digit failure rates. Misaligned with today's customers. Expectation that transfers should be completed in real-time, low-cost.
 - Companies like Ripple and Moneygram are using blockchain technologies for cross-border payments. (See [here](#) for info on Ripple's project for cross-border payments.)
 - Allows transactions to be fast, and improves the remittance experience
 - This is an actual use case
 - Arshad: What is the intersection for the state for a system like this?
 - Liz: You're right, I'm not sure if the state has a role for remittances. I just put together a use case example, but I have no idea if the government would ever be involved in something like this

- Orit poses a question for the group: Should remittances be in this report?
 - Ben: Yes. Just by the sheer # of residents that remit \$\$ to Mexico (millions of dollars a day), and many are working for the state or with the state. Somewhere in there, I know there's state involvement. We could minimize the transaction cost. Article on remittances from California to Mexico (2015).
 - Many of these are poor residents, and they pay all these fees. So perhaps the state could help minimize transaction costs. These residents are often unbanked, they may not have an SSN.
 - Ben: We just passed a law to enable public banks. <https://www.latimes.com/business/story/2019-10-02/public-banks-can-be-formed-under-bill-signed-by-newsom>
- Michele: How can the state get involved with remittances without partnering with the private sector internationally?
 - Liz: If residents have accounts with the state public bank, they could use blockchain technology similar to Ripple for remittances
 - Background on public banks (Ben)
 - They are public benefit banks--North Dakota is the most famous example. They invest in projects that benefit the people of ND.
 - The new legislation allows for the creation of them, but there are no public banks in CA that actually exist. People are figuring out the details right now.
 - Potential pilot project: state using blockchain for international remittances through these new, public banks.
 - Michele: I like this because it brings blockchain to an underserved population--the unbanked
- *Public comment:*
 - *Question: It seems like what you're talking about is having a public entity subsidize the cost of cross-border transactions, correct? You'd have to think about whose technology you'd have to use to facilitate these cross-border transactions, and what it means to subsidize the cost. And, why would someone who is used to using Western Union/Moneygram/etc. use a public bank instead? Also, regulating the private sector will be difficult--private sector will just stop doing cross-border remittances if there's a regulation that limits fees.*
 - Liz: The Western Unions/Moneygrams of the world use Ripple technology. If there are cost savings for Western Union/Moneygram b/c of state regulation, will WU/Moneygram actually pass it on? There's no guarantee. We don't know if we want the state to set prices.
 - Liz: I don't think there's anything particularly broken about remittances, right now. What we're looking at is this specific

- See this report for data about remittances to Mexico: https://www.thedialogue.org/wp-content/uploads/2018/12/Mexico_Final_Blog.pdf
 - *Next steps on remittances:*
 - 1) *Understand what's happening with the public bank*
 - *Advisory member Ali Medina will help with this as she's an expert*
 - 2) *Explore the payment transfer issue [Arshad]*
- **Banking (Audrey)**
 - *Public comment:*
 - *Cannabis industry. 70% of a \$3.1 B cannabis industry is unbanked - bad, lots of cash flowing around, public safety implications. We could use stablecoin. This would help reduce the amount of cash flowing around (public safety implications). It would be a homerun for the Blockchain Working Group to help charter this.*
 - Arshad: Would the public banks be a solution to this problem?
 - Ali: Not if they're FDIC-insured
 - Related article on using crypto for cannabis: <https://cointelegraph.com/news/us-politician-uses-crypto-to-buy-cannabis-for-tax-remittance-demo>
 - [See presentation from Audrey]
 - See also links from zoom comment:
 - <https://dcebrief.com/virtual-currency-tax-fairness-act-of-2020-introduced-in-u-s-house/>
 - <https://app.leg.wa.gov/billsummary?BillNumber=5638&Initiative=false&Year=2019>
 - Arshad: Should we be hearing from the bodies in CA that regulate the banks?
 - *Public comment: The Government Blockchain Association has access to lots of experts that we can talk to*
 - *There's an event January 31st at the US Capitol: The Future of Money and Law. We're all invited. [Gabby will forward info.]*
 - *Stuart Drown: We can come up with some names to help*
 - *Next Steps:*
 - 1) *Does banking fall underneath finance or the regulatory subcommittee? We need to decide this.*
 - Regulatory subcommittee specifics will be determined at the next full group meeting
 - 2) *What topics should we cover under banking?*
 - Michele: I support cannabis and municipal bonds
 - Arshad: Public banks
 - *Public comment: A use-case could be affordable housing. It allows for traceability.*

- *[Reminder about the process: The Working Group can attend conferences, talk to experts individually, but we need to make sure that WG members don't talk to each other outside of this public forum.]*

- **Cannabis Presentation (Ben)**
 - [\[Link for Ben's materials\]](#)
 - Summary: The state legalized cannabis recently, partially to improve tax revenue. It's hard though, because cannabis is unbanked, they can't use traditional banking systems. Cannabis is unbanked because, since cannabis is not legal at the federal level, dispensaries can't open accounts in any federally insured banks. So, lots of \$\$ for the state is being left on the table since payments are made in cash. One potential solution is to use blockchain-enabled cannabis payments.
 - At the point of transaction, the taxes are remitted automatically.
 - This has been used at a dispensary in the City of Emeryville--it worked well. Sales tax was automatically made to the local jurisdiction. [See Ben's materials for a description].
 - Liz: It would be helpful to come up with a transaction flow diagram of how the City of Emeryville crypto transaction worked/how it would work.
 - You could still run afoul of federal law. Look at fiat laws?
 - Liz: How do these cannabis businesses currently pay taxes?
 - Ben: Literal cash.
 - You could think about using this technology for things like firearms, alcohol, tobacco purchases too
 - *Public comment:*
 - *Lots of supply chain management uses too. One public commenter has used it to track sourcing of materials for a Napa Valley winery*

- **Business Permits & Licenses (Michele)**
 - Michele has conducted a few interviews with stakeholders at the state. Pilot may not be good here. Biggest impact would be in the healthcare industry--if we tried to do a pilot project and it messed up the licenses, for example, could mess up licensing of nurses which could hugely impact public health. Nurses can't be employed without licenses. So, not much appetite in these offices for a business permit/license pilot project & experiment. Michele's recommendation is to close this subtopic and do pilots in other places at the moment.
 - Liz: What about lower-stakes licenses like fishing licenses?
 - Michele: I asked, and there's not an appetite.
 - Liz: Are there other stakeholders that we might be missing? We should probably try and talk to people who don't have an incentive *not* to change the status quo.

- Ben: I would be hesitant in letting bureaucracy determine what happens. There's generally a disconnect between the customer and the govt. The taxpayer deserves a good deal. So, I would hold off on cancelling this too. I would maybe do some research to see if there's a desire from the taxpayer for a better licensing system.
- Michele: Sure. But, once I do that, I'd be curious to get your feedback on how we can make this happen given that there's not buy-in from the government employees who would do this.
 - Ben: But, we have two legislators on our working group. We can make this happen if there's an appetite for it.
- *Next steps:*
 - 1) *Get more input from the public on appetite for improved licensing*

4) Next Steps

- Gabby: We just need an oral update from the finance subcommittee lead (Ben) on what this committee is working on at the next large WG meeting. No formal report needed.
- *Vote: Are we okay with the below topic area assignments:*
 - *Banking: Ben and Audrey. [Ben is being added]*
 - *Benefits: Michele and Arshad [Arshad is being added]*
 - *Taxes: Liz and Ben (no change)*
 - *Remittances: Liz and Arshad [Arshad is being added]*
 - *Business Permits / Licenses: Michele and Liz [Liz is being added]*
 - *Vote:*
 - Ben Bartlett: Yes
 - Audrey Chaing: Yes
 - Liz Chien: Yes
 - Michelle Neitz: Yes
 - Arshad Noor: Yes
- Let's have another finance subgroup meeting on February 9th [confirm this date with Gaby]
 - Just the agenda needs to be published 10 days before

5) Future Agenda Items

- Also things to add to full group meeting agenda:
 - Should banking be merged with regulatory subcommittee?
 - Should tax be merged with regulatory subcommittee?

6) Public comment on items not on the agenda

- *Announcement made that any public comments that we didn't have time for can be sent to Gabby*