

# California Blockchain Working Group: Regulatory Subcommittee

## Working with Consumer Advocates and Other Stakeholders

### The Need for Collaboration Between Regulators and Consumer Advocates/Stakeholders

The need for regulators and advocates to work together on blockchain policy is clear. As a complex emerging technology, blockchain policymaking requires a great degree of collaboration between subject matter experts and regulatory agencies to ensure that the regulations being imposed are proportional to the issue being addressed. While there is inherent risk in allowing stakeholders with business-fueled incentives to affect policy, a degree of inclusion is necessary to develop proper regulation that addresses the true root causes of malpractice.

Consider the New York State BitLicense. The designer of the virtual currency licensing framework indicated on numerous occasions that BitLicense was largely a response to the Mt. Gox cryptocurrency exchange hack<sup>1</sup>. While good-intentioned, the regulatory framework was prohibitively expensive for many smaller cryptocurrency businesses, and ultimately drove cryptocurrency business out of the state<sup>2</sup>. The complexity of cryptocurrency necessitates increased collaboration between industry experts who understand and have experience with real-world use cases and the regulators creating and enforcing licenses and other frameworks. The end goal is creating regulatory policy that protects consumers, provides businesses with legal certainty, and doesn't compromise the core concepts of a decentralized blockchain system.

There are also technical limitations to policy and regulation imposed by blockchain. Because of the dynamic and continuously-changing nature of blockchain technologies, regulators alone are not able to execute regulatory functions. Rather, continual collaboration between industry stakeholders and advocates is needed to effectively create, enforce and update regulations on blockchain.

From a paper in the Stanford Journal of Blockchain Law and Policy: "Especially because code embedded in a blockchain system could determine the level of oversight on the activities within a blockchain-based financial ecosystem, regulators should consider ways to cooperate with engineering communities developing code despite often disparate incentives and mindsets<sup>3</sup>."

### Impediments to Regulators and Consumer Advocates/Stakeholders Working Together

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[https://www.reddit.com/r/Bitcoin/comments/2aycxs/hi\\_this\\_is\\_ben\\_lawsky\\_at\\_nydfs\\_here\\_are\\_the/](https://www.reddit.com/r/Bitcoin/comments/2aycxs/hi_this_is_ben_lawsky_at_nydfs_here_are_the/)

<sup>2</sup> <https://www.bizjournals.com/newyork/news/2015/08/12/the-great-bitcoin-exodus-has-totally-changed-new.html>

<sup>3</sup> <https://stanford-jblp.pubpub.org/pub/multistakeholder-comm-governance>

One of the biggest roadblocks to regulators working together with advocates and stakeholders is the lack of open communication between the two. While regulators are consistently becoming more technologically literate, it may be unrealistic to expect that agencies will have the resources to become subject matter experts on blockchain technology, capable of making regulatory decisions in a vacuum. In response to this knowledge gap, open communication between the builders of blockchain systems and the regulatory agencies is key. Shin'ichiro Matuso, research professor and director of the Blockchain Technology and Ecosystem Design Research Center at Georgetown University has highlighted the need to solve this communication problem.

Referring to the lack of open communication and traditionally tense relationship between regulators and stakeholders: "The main issue is, we still don't have proper communication channels among stakeholders in this ecosystem. Regulators don't have a functional language to talk with open-source engineers. Open-source engineers sometimes do not want to speak with regulators<sup>4</sup>."

### **Recommendations for Future Collaboration**

Open communication between consumer advocates/stakeholders, subject matter experts, and regulatory agencies must increase in order to create viable long-term blockchain regulatory policy. Towards this end, government regulatory agencies, together with consumer advocacy groups and other industry stakeholders should consider a multi-stakeholder governance model for regulating blockchain technologies.

As a result of the decentralized and open-source tenants of blockchain, a multi-stakeholder governance framework is a strong option for oversight of blockchain systems. The inclusion of various perspectives makes sense for blockchain regulation from a conceptual standpoint - one of the key struggles is regulating this technology without impeding its purpose. Regulatory agencies are, by definition, central authorities, and decentralization is a core tenant of blockchain systems. A multi-stakeholder framework, similar to the governance standard adopted for the Internet, has the potential to benefit all parties involved.

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<sup>4</sup> <https://www.coindesk.com/bridging-the-gap-between-bitcoin-and-global-regulators>