

CoinValidation Position Paper

W3C Web Payments Workshop – March 24th – 25th – Paris, France

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Abstract

The Internet was developed as a way of sharing information and it has revolutionized our ability to do so. As it was originally developed, however, the protocols underlying the Internet were not focused on financial transfers and global finance. To a large extent, much of the infrastructure of the banking system has been built on top of existing web structures. The Bitcoin network is another network created in 2009 that was designed specifically to address the concerns of global finance in a digital world. While the currency and its volatility has attracted much media attention, the protocol for creating a decentralized system of value transfer has even greater potential and can solve many problems. Bitcoin is a big step forward in terms of applying technology to money and its implications are vast. This paper seeks to both give an overview of Bitcoin, as well as address some of the regulatory concerns and how our company has been working with governments to ensure the greatest leveraging of these advances.

Introduction

Bitcoin is a decentralized digital currency. It uses peer-to-peer technology to manage and track transactions, issue currency, and enforce security with robust cryptographic procedures. Bitcoin is based on open source technology that cannot be influenced by any one person, but is instead maintained and managed by the entire community of users. It provides for a democratic process

that operates with checks and balances, as well as a strictly defined system for making any necessary amendments.

Many legitimate companies and entrepreneurs around the world have started accepting Bitcoin as a form of payment, ranging from small coffee shops and pizzerias to internet giants such as Baidu (China's largest search engine), Wordpress (which powers more than 70 million websites worldwide), Reddit, Overstock.com, Etsy, and Shopify. These brands are just a few of the many thousands of successful and respected businesses currently engaging in the Bitcoin ecosystem. While Bitcoin is inherently anonymous (as it does not ask for any personal or user-identifiable information when creating a new address), every transaction on the Bitcoin network is written to a publicly visible ledger called the blockchain. In a well-defined and regulated environment, it is possible for businesses to operate with a greater level of transparency when receiving bitcoins compared to receiving traditional fiat currency.

As of 2:20PM on February 4th, 2013, the market cap for all existing bitcoins was approximately \$10.3 billion. With more than 50,000 Bitcoin transactions taking place every 24 hours, and the transactional volume of the ecosystem reaching \$40billion+ per year, at a growth rate of ~33% per month, Bitcoin is an impressive emerging technology with real world utility and ever-increasing adaptation worldwide.

Digital Currency Potential

The implications of this solution are vast. Among others, it brings cash to the Internet. Whereas before one would have to give information to give money, now, because one can be reasonably

assured that the double-spending problem has been solved, all merchants need to give is their address, without requiring user-data.

It will dramatically decrease transnational money transmission costs. Instead of going through traditional systems that relied on centralized, and often monopolized services, Bitcoin and other digital currencies have brought transaction costs down to near-zero. Transferring value becomes as costless as transferring email. This will change the remittance market. Although it is often fraught with concerns of terror financing and money laundering, if companies are able to work within the laws of their jurisdictions, digital currencies are able to dramatically decrease the costs in this ecosystem.

Bitcoin is a big step forward and perhaps we could take lessons learned from it and apply them to payments on the Web. Whether it is specially Bitcoin that succeeds, the decentralized nature of it has implications for national currencies like dollars and euros. Governments and traditional payment processors can use the ledger system of Bitcoin to increase their own efficiencies.

This has and will continue to revolutionize payment processing. It will also force law enforcement and regulators to come to grips with a new form of money transfer. CoinValidation is a solution to the problems facing law enforcement and regulators with the advent of Bitcoin and other digital currencies.

There needs to be standards for verifying addresses and the ability to associate them with users. Whether companies choose to adopt these standards is a choice for various jurisdictions and

regulatory regimes, but what it means to “tie” someone to a Bitcoin address is a question worth discussing.

Company Overview

CoinValidation, a private company founded in 2013, has developed patent pending software and technology to facilitate the legal, regulated, and compliant operation of Bitcoin-based money service businesses in the United States of America. This software package will equip the US government with the tools necessary for regulating US-based Bitcoin businesses, and will enable Bitcoin companies to operate in good standing within US regulated markets. By working closely with US state and federal regulators, CoinValidation seeks to make the United States the focal point for the world's "next generation" of financial innovation.

CoinValidation has developed a one-stop compliance suite for Bitcoin institutions, and seeks to work closely with US regulators to satisfy state and federal compliance requirements.

CoinValidation has built innovative software and technology providing Bitcoin businesses with “know your customer” functionality, and has assembled the information and advanced programs necessary to satisfy the compliance requirements of the US regulatory agencies. This package can enable Bitcoin businesses to operate without the legal and cost liabilities typically associated with Bitcoin, and will also empower the US government to create a safe, regulated, operating environment for Bitcoin companies in the United States of America.

We have worked directly with both federal and state agencies, as well as members of the House of Representatives and Senate and the reception has only been positive. Governments and large institutions want to find ways to leverage the network and use its efficiencies to improve their own systems. This is a discussion that we are having and will continue to have.

Conclusion

This is an exciting time to be working with payments. Just as the Internet changed the nature of information, so too will the Internet change the nature of finance. Bitcoin is one solution, among many, that will increase efficiencies and solve some of the problems of global finance. Whether it comes in this specific software form or it gets adopted in another fashion, we believe this is a fruitful conversation that will redound to the good of all of society.