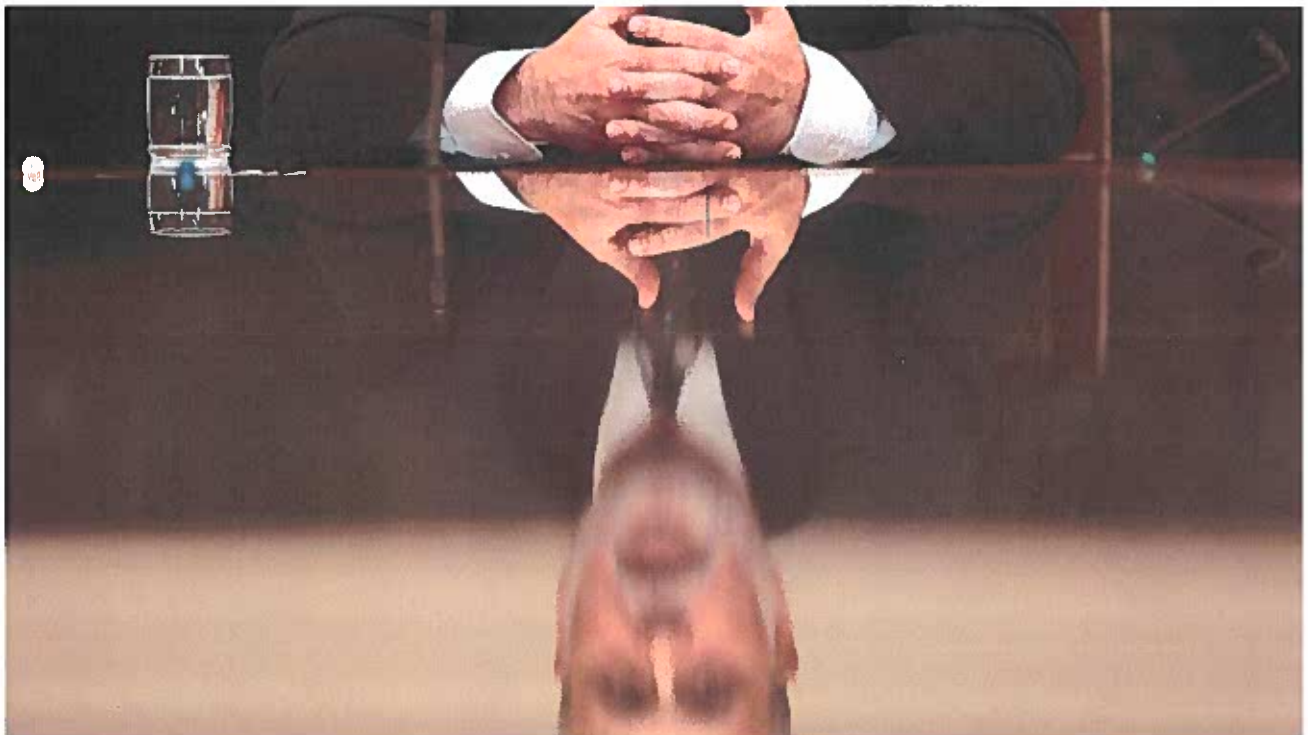




Ben Bernanke's letter to Congress: Bitcoin and other virtual currencies "may hold long-term promise"



Upon reflection... (Reuters/Jonathan Ernst)

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America's top central banker has given his cautious blessing to bitcoin, the virtual currency that famously requires no central bank.

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OBSESSION

Future of Finance

In a letter ahead of today's congressional hearings, US Federal Reserve chairman Ben Bernanke mostly distanced himself from virtual currencies, saying the Fed "does not necessarily have authority to directly supervise or regulate these innovations or the entities that provide them to the market." But he also said that bitcoin and its ilk "may hold long-term promise, particularly if the innovations promote a faster, more secure and more efficient payment system."

November 18, 2013

[Here's the full text of Bernanke's letter...](#)



Dear Senators,

Thank you for your recent inquiry regarding virtual currencies. As you noted, virtual currencies have been receiving increased attention from U.S. authorities over the past several months.

Historically, virtual currencies have been viewed as a form of "electronic money" or area of payment system technology that has been evolving over the past 20 years. Over time, these types of innovations have received attention from Congress as well as U.S. regulators. For example, in 1995, the U.S. House of Representatives held hearings on "the future of money" at which early versions of virtual currencies and other innovations were discussed. Vice Chairman Alan Blinder's testimony at that time made the key point that while these types of innovations may pose risks related to law enforcement and supervisory matters, there are also areas in which they may hold long-term promise, particularly if the innovations promote a faster, more secure and more efficient payment system.

Although the Federal Reserve generally monitors developments in virtual currencies and other payments system innovations, it does not necessarily have authority to directly supervise or regulate these innovations or the entities that provide them to the market. In general, the Federal Reserve would only have authority to regulate a virtual currency product if it is issued by, or cleared or settled through, a banking organization that we supervise. Given the Federal Reserve's authority and the manner in which virtual currencies have developed, the Federal Reserve has focused primarily on a supervised banking organization's role in the products' sale and distribution, as well as the applicable regulations, such as Bank Secrecy Act (BSA) /anti-money laundering (AML) requirements.

Policies, Procedures, Guidance or Advisories

In March 2013, the Financial Crimes Enforcement Network issued guidance to clarify that an administrator or exchanger of virtual currency is generally considered a money transmitter under definitions and therefore subject to BSA requirements? The Federal Reserve's supervisory expectations and guidance related to compliance for bank transactions using virtual currencies have been incorporated into the Electronic Cash section of the Federal Financial Institutions Examination Council (FFIEC) Examination Manual. The overall objective of the guidance and examination procedures provided in this section is to assess the adequacy of a bank's systems to manage the risks associated with electronic cash and management's ability to implement effective monitoring and reporting systems. The section further lists applicable risk factors and risk mitigation steps for banks to consider. The Federal Reserve supervision staff has on-going initiatives with the FFIEC member agencies to identify additional areas of concern that require heightened attention by the banking organizations we supervise.

Ongoing Coordination

In May 2013, the US. Department of the Treasury (Treasury) named Liberty Reserve S.A. as a financial institution of primary money laundering concern under Section 311 of the USA PATRIOT Act (Section 311).⁴ According to the announcement, Liberty Reserve, a web-based money transfer system or "virtual currency," was specifically designed and frequently used to facilitate money laundering in cyber space. This action also marked the first use of Section 311 authorities against a virtual currency provider.

The statutory language of Section 311 requires Treasury to consult with the Federal Reserve Board when these special measures are being developed and proposed. Therefore, Federal Reserve Board staff participated in coordination and consultation efforts leading up to the designation of the virtual currency provider, Liberty Reserve, under Section 311.

Specific Plans or Strategies

As noted above, the Federal Reserve plans to work with other FFIEC member agencies on electronic cash and related issues such as virtual currencies, as needed, for banking organizations. The Federal Reserve will continue to monitor developments as part of its broad interest in the safety and efficiency of the payment system. We also stand ready to cooperate with other agencies in fulfilling their mandates, as appropriate.

I hope you find this information helpful.



OBSESSIONS

Sincerely,
[Ben Bernanke]

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