

Blockchain Task Force

State of Wyoming Legislative Hearing

September 24-25, 2018

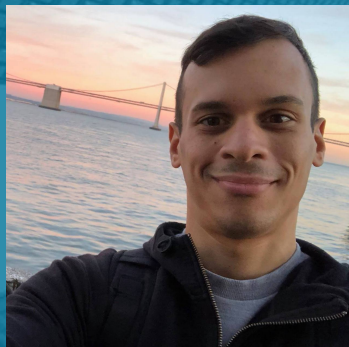


Shahla F. Ali
Chief Legal &
Compliance Officer
BitGo, Inc.

Shahla Ali serves as CLO/CCO at BitGo, heading up the legal team and ensuring compliance with laws and regulatory requirements. She brings more than 17 years of experience to the company having held senior legal and compliance roles at Carlson Capital, L.P. and Millennium Management, LLC.

As Global CCO of Carlson, Shahla managed a team charged with implementing global compliance policies and procedures and was the global AML Officer/MLRO responsible for firm-wide global AML compliance, and other domestic and international KYC/AML/CIP requirements. At Millenium, Shahla led efforts to enforce compliance policies and procedures to meet SEC, CFTC, FINRA, NFA, UK FSA, MAS, and Japan FSA requirements.

Shahla served as Assistant Attorney General under Attorneys General Eliot Spitzer and Andrew M. Cuomo in the Office of the New York State Attorney General (NYAG). Shahla earned her undergraduate degree from Boston University and a Juris Doctorate from Boston University School of Law.



Isaac Eleftheriadis
Senior Technical
Product Manager
BitGo, Inc.

Isaac Eleftheriadis serves as the Senior Technical Product Manager responsible for BitGo's core blockchain platform services, which are the foundation for all BitGo service offerings. Isaac and his team are responsible for infrastructure development, monitoring protocol development of new and existing coins, and expanding BitGo's support of coins and tokens. Isaac's primary focus is ensuring customer funds remain secure and accessible at all times.

Isaac has 11 years of experience building products that engage and delight users across mobile, desktop, and web platforms. He started his career as a software engineer and later worked as product manager for Cisco WebEx Meetings. He led go-to-market strategy for cloud-based Cisco TelePresence devices and IP Phones prior to joining BitGo.

Isaac was awarded a U.S. patent for acceptance of policies for cross-company online sessions and holds a B.S. in computer science from Northeastern University.



Who Is BitGo?

Cryptocurrency security technology leader

- BitGo is the first multi-signature security service and was founded in 2013
- Processes over \$15 billion USD monthly; 15% of global on-chain transactions
- The world's largest enterprise service provider for digital currencies
- Service provider to many regulated institutions such as CME Group, Royal Mint Group, and Prime Trust

Qualified Custodian for cryptocurrency and digital assets

- BitGo Trust Company is regulated by the South Dakota Division of Banking
- Seeking federal "Qualified Custodian" status



BitGo Is the Leader in Security and Regulatory Compliance

Security and safekeeping first

- Vastly different from other cryptocurrency companies
- “Security-first” design and infrastructure; 100% multi-signature wallets with no compromises
- Designed for institutions (not retail) and built to secure 3rd party assets

Stand-alone custodial services

- No trading or advisory services
- No exchange services

Compliance, audits, and standards

- All customers undergo strict CIP / AML / KYC processes
- Security audits annually since 2013
- One of the first cryptocurrency companies to take on SOC2 audits
- Co-author of the Cryptocurrency Security Standard (CCSS) in 2015



BitGo Difference

Demonstrated
robustness of
security
controls



Cryptocurrency Security Standard (CCSS) Level 3



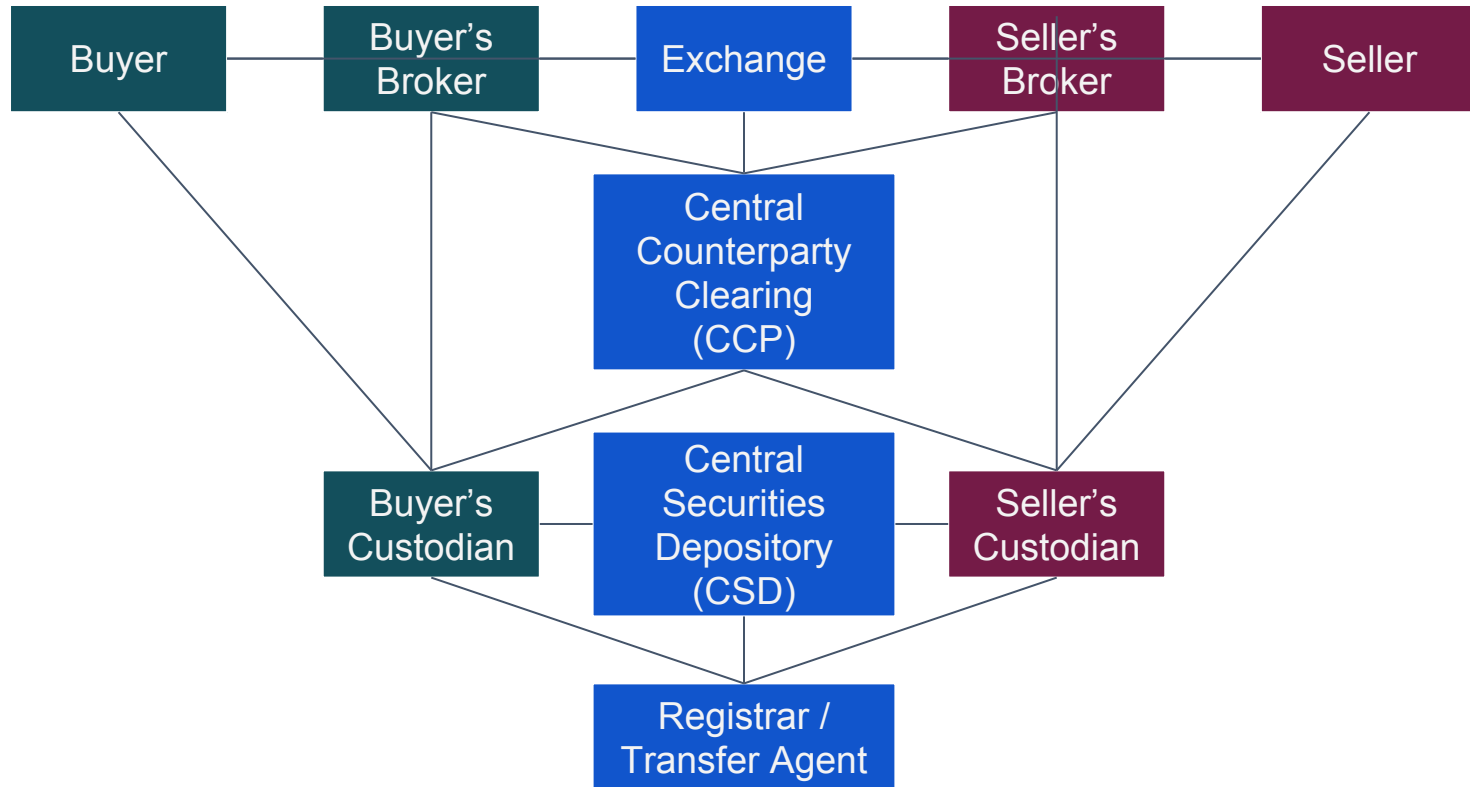
SOC2 Compliant (Audit by Deloitte, July 2018)

Licensed
regulatory
compliance



BitGo Trust Company is a licensed qualified
custodian by the South Dakota Division of Banking

Traditional Financial Market Structure



Cryptocurrency Market Structure



Crypto exchanges are the most centralized exchanges in existence today

- Exchanges take on all fiduciary roles
 - Trading
 - Brokering
 - Clearing
 - Settlement
 - Custody
- Result is unsafe
 - Lack of transparency
 - Lack of checks and balances
 - Lack of institutional grade focus or controls

Institutional Wave over the Last 9 Months

226 Hedge Funds

focused on trading crypto (doubled since Nov 2017)

Nasdaq

announces support for cryptocurrency exchanges

VanEck & SolidX

join forces to seek SEC approval to launch Bitcoin ETF

Intercontinental Exchange

announces Bakkt, a Global Platform and Ecosystem for Digital Assets

Jan
2018

Feb
2018

Mar
2018

Apr
2018

May
2018

Jun
2018

Jul
2018

Aug
2018

Sep
2018

NYSE parent, Intercontinental Exchange creates cryptocurrency datafeed

Trading Technologies, a Wall Street trading platform, launches a cryptocurrency trading platform

Goldman Sachs adds cryptocurrency trading desk

Northern Trust announces intent to offer custody for cryptocurrencies

Citigroup announces intent to let investors trade custodian-held cryptocurrencies



Regulate market participants and their activities rather than reviewing underlying digital assets to determine regulatory framework



Custody and Regulation

Common sense regulation exists

- Decentralization is the hallmark of investor and consumer protection mandates of existing financial regulation
- Existing financial regulatory framework can be applied to cryptocurrency markets

What's needed?

- Treat exchanges like exchanges; brokers like brokers; focus regulation on the activity not the digital asset itself
- A “Qualified” Custodian exclusively dedicated to security and safeguarding assets is the only true solution to mitigating a cryptocurrency regulatory crisis like that of 2008



Custody Is a Missing Piece in the Digital Asset Space



Monica Sommerville,
Senior Analyst, TABB Group

“Institutional money is being amassed, sitting on the sidelines, held back by a lack of greater regulatory clarity, institutional-grade data and enterprise-ready infrastructure, waiting for the right conditions to enter the market, expected to begin happening this year.”

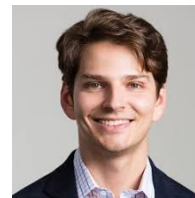
Source: TABB Group “Crypto Trading: Platforms Target Institutional Market,” May 2018



Gabriel Wang
Analyst, Aite Group

“Asset custodial services in the traditional sense doesn’t exist in the cryptocurrencies market. As the market continues to mature and market participants gradually find clarity from global regulatory bodies, Aite Group expects to see incumbent financial institutions taking the role of asset custody for cryptocurrencies down the road.”

Source: Aite Group “The Cryptocurrencies Market Landscape: A New Frontier,” July 2018



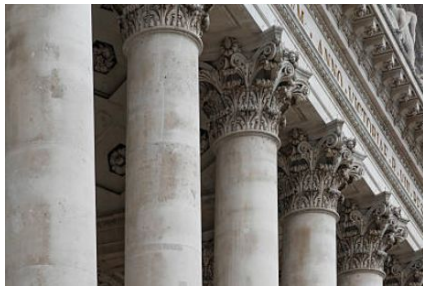
Lex Sokolin
Analyst, Autonomous
NEXT

“Once institutional liquidity and custody are solved, crypto assets can be packaged and distributed like other investments within asset allocations to family offices, endowments and retirement portfolios.”

Source: Autonomous NEXT “Crypto Utopia,” July 2018

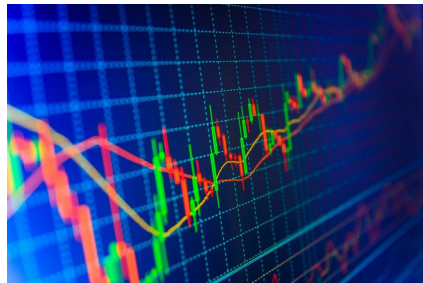


Not All Custodians Are the Same



Traditional custodians offer custody *but...*

- **Security Risk:** Not security experts in digital assets and few offer deep cold storage
- **Business Risk:** Holding digital assets is not the same as holding stock certificates
- **Procedural Risk:** Quick transfers out of cold storage is not consistent with security best practices



Crypto Exchanges & Broker Dealers offer custody *but...*

- **Security Risk:** Seven hacks and over \$800M stolen from exchanges since January 2018!* Where asset protection is not core focus, security is compromised.
- **Business & Regulatory Risk:** Major conflicts of interest (self-dealing, principal trading, front-running, etc.) NYAG report dated 09/18/2018. Coinbase reported 20% of all trades were its own. NYAG noted market manipulation was not a concern for large exchanges.

*Wall Street Journal, July 16, 2018
https://ag.ny.gov/sites/default/files/vmii_report.pdf?mod=article_inline



Addressing Regulation Through Technology

Proper custody of assets

- Regulators and customers alike must increase scrutiny on the technology behind custody
- Custody solutions for digital assets, unlike traditional assets, must be secured with innovative technology
- Regulators must create common sense regulation that allows innovation and independence of crypto markets

Technology allows more effective implementation of regulatory requirements

- Blockchain provides transparency (i.e., it's public) and ability to track funds at all times
- BitGo indexes blockchains to allow simplified reporting, tracking, auditability for its customers
- As custodial agent, BitGo can attest to true ownership and exclusivity
- Ability to identify the particular individual that took action on a wallet
- Significantly reduced counterparty risk via multi-signature technology
- All customers run through KYC/AML to ensure compliance
- All transactions out of the wallet require live identity verification

Not All Custody Solutions Are the Same

BitGo Custody is purpose-built for digital assets → real-time access to blockchain

- Existing legacy custodians do not sync to the blockchain, which leads to discrepancies in reporting and delays in transactions
- Three trusts currently offer custody of digital assets in the US: all three are using BitGo technology
- Existing legacy custodians custodying digital assets along with traditional assets lack the technology that is key to securing these assets
 - BitGo is at its core a software technology provider dedicated to security through innovation

Valuation is core component of custody

- Biggest institutions in the world offering physically traded Bitcoin futures choose BitGo
 - Existing legacy custodians cannot mark-to-market / value digital assets without real-time access to pricing indices offered by these trading platforms
 - BitGo has direct connectivity to pricing feeds to allow for real-time mark-to-market valuation



Best Digital Custodians Blend Physical and Virtual Security

Key components to look for when evaluating digital asset custodians

- Key generation ceremony and procedures for creation of keys
- Sharding of keys
 - BitGo created the multi-signature technology for Bitcoin and key sharding
- Secure storage in Class III bank-grade vault with individual subvaults with key shards
- Signing done on airgapped computer
- Assembling a single signature means breaking into vault, breaking into multiple subvaults, and stealing the password for each key shard
 - Then you still need the other signatures!
- Customers and regulators need to evaluate claims of insurance



BitGo's Class III bank-grade vault (under construction)

Not All Custody Insurance Is the Same

Appropriate insurance is a cornerstone of true custody

- Regulators and consumers alike need to evaluate claims of insurance by custodians
- Many digital asset market participants claim insurance
 - But what insurance do they have?
- Participants custody billions in assets generally have low caps on insurance
 - Regulators and consumers need to scrutinize the capitalization of claimed insurance vs. assets custodied
- Generally insurance does not cover assets under custody but rather the institution
 - Insurance is provided by unknown or relatively new insurers
- BitGo will at the outset offer \$100M of true insurance on underlying custodied assets underwritten by large Lloyd's insurers



Legislation and Regulation That Makes Sense in the Digital Age

Existing financial regulations can address most activity in cryptocurrency; money transmission laws are one exception

- We are a global economy and digital assets by nature are borderless and must be freely transferable among jurisdictions
- Money transmission laws were designed to address AML/KYC and safeguarding of state residents' assets
 - Purpose-built “Qualified Custody” addresses the key goals of money transmission laws
- Varying state money transmitter laws pose a barrier to entry of “Qualified Custodians”
 - Negate the purpose for which these laws were implemented
 - Force consumers to custody with centralized exchanges and broker dealers
 - Huge security, hacking, and conflicts risks
- A legislative and regulatory regime is required to:
 - Provide “Safe Harbor” from money transmission laws
 - Allow Qualified Custodians uniform and simplified digital asset transmission licensure across states
 - Promote entry of multiple Qualified Custodians thereby fostering a healthier digital market structure
 - Ensure that Qualified Custodianship requires a demonstration of focus on security married with technology

The background of the slide is a monochromatic blue image of a heavy vault door. The door is closed and features a large, circular handle in the center. The handle has a complex, multi-spoked design. The door is surrounded by a thick frame with visible rivets or bolts. The floor in front of the door is made of square tiles.

Thank you



Do You Need a Qualified Custodian?

Custodian

- Third party entity that holds another's assets **minimizing the risk of loss or theft**
- Provides basic **safekeeping services for assets**
- Provide services aimed at **reducing the operational burden** related to owning an asset

Qualified Custodian

- A licensed financial institution that holds another's assets **minimizing the risk of loss or theft**
- Provides **safekeeping services for assets** held in segregated accounts
- Provide services aimed at **reducing the operational burden** related to owning an asset, including providing quarterly account statements, and held to audits by an independent governing body



Trusted by the Largest Digital Asset Companies



...and many more