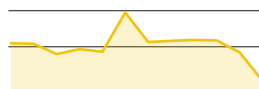




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Bitcoins Affected by New York's BitLicense May Trade at Discount

Jon Matonis (@jonmatonis) | Published on July 30, 2014 at 13:47 BST

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With New York's BitLicense scheme officially three months away, sophisticated traders are already devising strategies to profit from the potential arbitrage opportunities.

If implemented in the regulation's final version, the physical address and identification requirements (Sections 200.12 and 200.15) for both sides of a transaction will dilute the inherent privacy of the overall bitcoin network.

Due to potential IP address blocking and other techniques to identify and block New York-based traders, the exchanges operating within the jurisdiction may end up 'ring-fencing' themselves and their customers' bitcoin.

Of course, this was not New York's intention, but if other parties begin to shun 'New York' bitcoins, then those parties that do choose to accept them may only accept them at a discount, making it costly to transfer 'non-private' bitcoins out of New York.

Tainted by government

Typically, we refer to a loss of essential fungibility occurring as a result of some type of positive coin validation required by the government. In this case, it would be the government-approved coins that would be tainted. Perhaps, New York could mandate complete fungibility of their

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exchanges' coins through legislation, but that would imply subsidizing the exchange rate.

Arthur Hayes, CEO and co-founder of BitMEX (Bitcoin Mercantile Exchange), who has strong derivatives experience with an institutional trading background, explained:

"These regulations are going to make some savvy traders a lot of money. Because there is a premium placed on privacy, the 'clean' coins trading on exchanges with BitLicenses will trade at a discount to coins trading on exchanges that operate in more laissez-faire jurisdictions. Traders with the ability and risk appetite will be able to arbitrage the price differential."

Based in Hong Kong, Hayes is launching a bitcoin futures and options exchange similar to the currency futures exchanges that sprouted up in Chicago after the 1971 collapse of Bretton Woods. Hayes recently participated on CoinSummit's derivatives panel in London, where he said he is counting on large speculators and commercial hedgers to utilize exchange-traded futures and options as a risk management tool for bitcoin.

Jurisdictional differential

Just as WTI (West Texas Intermediate) crude oil contracts vs North Sea Brent crude oil contracts trade at a differential and Chicago wheat contracts vs Kansas City wheat contracts trade at a differential, certain jurisdictional bitcoins can trade with a differential. For now, only a single-type bitcoin futures contract will be traded on BitMEX.

Indeed, newly mined 'virgin' bitcoin have commanded a premium for some time now in certain circles. In 2013-14, Mt. Gox coins frequently traded at either a premium or discount to other bitcoin depending on politics and exchange liquidity.

With physical bitcoin over the counter or with person-to-person trading, Hayes describes a likely scenario:

"The best example would be citizens of New York who wish to anonymously buy Bitcoin. Buyers will need to pay an increased fee to a trader who does not possess a BitLicense. The fee will cover his or her costs of acquiring coins outside of New York, and extra profit for the trader compensating him or her for the extra risks taken."

Bitcoin black market

Free markets solve political and structural problems to increase liquidity, and currencies are no different.

Today, one of the best examples of this is the 'blue dollar' exchange rate in peso-ravaged Argentina, which trades at a 60% premium to the official US dollar exchange rate with the central bank.

The BitLicense-based exchange rate may be the closest thing to an official central bank rate for bitcoin and maybe this is a conscious attempt to develop an institutional wholesale market. Ultimately, it could be a bonanza for those that find themselves with the unofficial bitcoin, just like the happy tourists to Argentina.

It's quite possible that, at the end of the day, we will see a three-tier rate structure for bitcoin:

1. Virgin bitcoin
2. Free market bitcoin
3. Tainted jurisdiction official bitcoin

Hayes added, "At the end of the day these regulations will do nothing but push more trading off exchange and make it more expensive for honest people to obtain financial privacy."

Disclaimer: The views expressed in this article are those of the author and do not necessarily

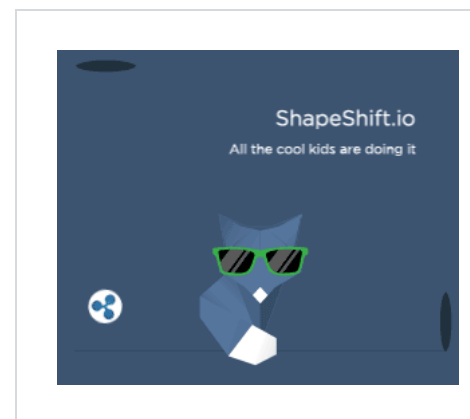
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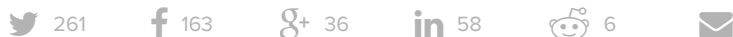


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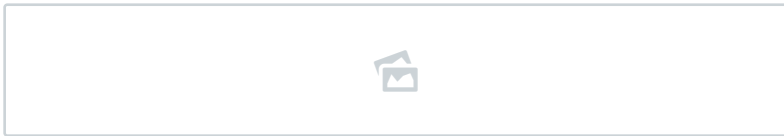
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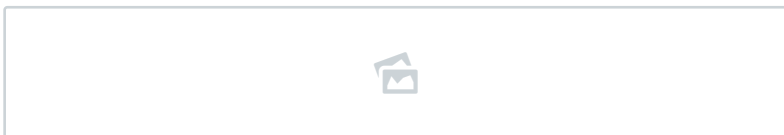
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 **StockBet** → Potcoin Fan · 8 months ago
 Impressive graphic work.
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 **CYA NYC!** · 8 months ago
 New York is a wasteland .. good riddance
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 Sorry New York, if you want us to do business with you, speak up!
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 **Don bond** · 8 months ago
 Sorry NY. You snooze you loose. Your regs are going now where and in fact your blacklisting yourselves out of existence. Stupid Douche bags.
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 **Pheasant_Plucker** · 8 months ago
 I have a different view.
 To me these are just different Bitcoin channels, the more channels the better adapted to the needs of the investor. Consider the different ways people can trade stocks:
 1. directly person to person or bank to bank (OTC) private transaction
 2. directly on a public exchange
 3. directly on a private exchange (aka dark pool)
 4. indirectly on the exchange through a discount broker
 5. indirectly on the exchange through full service broker
 6. indirectly on the exchange through money manager/pension fund.
 2 ^ | v · Share ›


 **ArtyD** · 8 months ago
 I don't see how NY could use bank rules and regulations in regard to bitcoin. Perhaps it is because the linked law in question is in regards to banks instead of bitcoin? In effect they are proving they are clearly incompetent in their learning of what bitcoin is and how to regulate it. They even go so far as saying BANK in 200.12 A-3 which proves it beyond all shadow of a doubt.
 2 ^ | v · Share ›


 **guest2** → ArtyD · 8 months ago
 Because banks are unable to block or recognize bitcoin deposits in legit way so the NY stepped in to make it clear that it does not want the business.
 Federal laws will overwrite NY rules, if written in contradiction to NY rules.
 ^ | v · Share ›

 **Pacman** · 8 months ago
 really guys
 once the bit license is rolled out it will be business as usual
 its just another way of shaking those coins out of the sheeple ! and into the hands of wall street
 4 ^ | v · Share ›


 **Nikato Muirhead** · 8 months ago
 This is sad and is the result of the Federal Government's inability to act when it had the chance. . Currency, especially foreign currency, should be a Federal issue.
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 **Helpful** · 8 months ago
 It's cool that you got advice from an exchange in Hong Kong. Next time, please try one in North America, for quotes/advice on legal matters originating in North America.
 2 ^ | v · Share ›

 **Jon Matonis** → Helpful · 8 months ago
 It's non-North American exchanges that will be providing most of the arbitrage.
 4 ^ | v · Share ›

 **bouf** → Helpful · 8 months ago
 Did you read the whole article??
 ^ | v · Share ›

 **GOD** · 8 months ago

 the whole point of Bitcoin is to not be regulated by any bank and to keep transfers as anonymous as possible. No government has any right to regulate something that does not belong to them.


^ | v · Share ›

 **Sean Daley** · 8 months ago
Jon,


Tyrone Johnson has presented Silent Vault's take on the NY reg.s over here:

<http://silentvault.com/tiki-vi...>

^ | v · Share ›

 **getalogic** · 8 months ago
"Bitcoins Affected by New York's BitLicense May Trade at Discount"
That's a F%^ed up statement. Sure, in Argentina where US dollar is illegal is may trade at discounted rate.


^ | v · Share ›

 **Chris** · 8 months ago
By the same logic, couldn't NY bitcoins trade at a premium, for being licensed and the only coins Wall St will accept? Beauty is in the eye of the beholder and all.

^ | v · Share ›

 **goodmorning2014** · 8 months ago
The only new yorkers that know how to use bitcoin are the ones that never fallowed regulation in first place. Barcleys and JP Morgan did not fallow regulations and thats why they rule the world. What makes you think bitcoiners care what NYlicense means. They got into this business because regulations cant touch them. Good morning NY.


^ | v · Share ›

 **Alejandro Kochmer** · 8 months ago
Here is the relation between dolar on Argentina <http://argentinedollar.com>


^ | v · Share ›

 **CryptoCoinUser** · 8 months ago
What happens in New York has a good chance to spread to the rest of US.
Google "Emerging Payments Task Force":
<http://www.csbs.org/news/press...>
Regulators from 8 other states that pretty much cover the entire crypto space in the US are cooperating with Lawsky.
I'm not worried for Bitcoin, just for US.
The BRICS nations are already forming their own fiat transaction clearing system as part of the de-dolarization trend.
If the US states and/or Feds try to "regulate" crypto-innovation into the ground, the BRICS can cause a strategic brain drain in the US just by going easy on crypto start-ups.
Should the BRICS make Bitcoin legal tender, it's game over.
Plus there's start-up friendly places like Singapore & Chile.

^ | v · Share ›

 **JuanitaRojas** · 8 months ago
No, New York's intention was and is to make bitcoin worth less, if not worthless.

^ | v · Share ›

 **wonky tonky** · 8 months ago
word!

^ | v · Share ›

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