

Bittrex Statement on the New York Department of Financial Services (NYDFS) Decision



Communications Team

Today at 11:41

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Bittrex is saddened and disappointed in today's decision by the New York Department of Financial Services (NYDFS), which we believe harms rather than protects New York customers. Bittrex fully disputes the findings of the NYDFS in today's decision. We have worked diligently with NYDFS to address their questions and meet their requirements since first applying for our BitLicense in August of 2015.

First, and foremost, we adamantly disagree with NYDFS' claims and allegations in regard to our anti-money laundering (AML) and compliance practices. Corporate responsibility is in our DNA and our commitment to regulatory and compliance guidelines is second to none. More specifically, today's letter contains several factual inaccuracies that we feel must be addressed:

Internal Policies, Procedures and Controls

- Bittrex implemented transaction monitoring, and is in the process of fully automating that process
- Bittrex maintains a risk assessment framework, approved by outside counsel, and fully trains all company employees in its AML policies and procedures
- Bittrex screens for SDNs when a customer opens an account, and tracks all SDN updates from OFAC, checking our customer upon notice; we are enabling continuous automated screening with a new system going into effect this quarter

- The Iranian customers referenced in the letter were reported to OFAC in January 2018; we do not have and have never had any North Korean customers

Customer Due Diligence

- Sample included by NYDFS was taken from 2017. Since then, we have mandated full customer identification, including the requirement that all customers submit government-issued ID and a “selfie” which is then compared against the ID to ensure a match; we have disabled all accounts not meeting this enhanced verification standard. This is the industry standard not only in virtual currency but also in traditional banking
- The letter mentions accounts with names that did not match. There were less than a dozen of these names in total and none of these accounts were ever active and none of these accounts ever made a trade. The fact that these accounts were unable to trade demonstrates the effectiveness of our diligence process, rather than a deficiency as NYDFS alleges

Additionally, today’s letter withholds key context from the review process. In January of this year, NYDFS presented to Bittrex a supervisory agreement that, if agreed to, would have resulted in the issuance of a BitLicense and a Money Transmission License. There were significant issues with the agreement:

- **Coin Restrictions & Regulatory Overreach-** The agreement restricted the coins we could offer to New York residents to only ten coins, and imposed restrictions on the process by which Bittrex could offer new coins. This would have prohibited Bittrex from listing coins that are offered to New York residents by other bitlicensees. NYDFS reserved the right to order us to withdraw coins at any time. Additionally, DFS would be able to prohibit offering tokens to NY residents, even if other NY bitlicense holders were able to offer the tokens
- **Unrealistic Capital Requirements-** NYDFS imposed capitalization requirements far in excess of that of any other state despite Bittrex’s industry leading security and cold storage procedures. These requirements were based upon a pre-existing formula of hot wallet v. cold wallet storage that did not take into account the broad range of coins that Bittrex lists and ignored the risks of frequently moving assets from hot to cold storage. Bittrex offered a bond to cover the entire capitalization of all New York customers (in addition to the \$1 million bond NYDFS requires for all licensees), but that was rejected
- **Business Harm-** The agreement would have required Bittrex to obtain NYDFS approval to

form or acquire any other entity. This would have significantly restricted our ability to create the appropriate corporate vehicles to expand in other jurisdictions

We attempted to negotiate the terms of the supervisory agreement but were told that these terms were non-negotiable. After determining the requirements imposed by the NYDFS would have materially affected other parts of our business, including how Bittrex operates in other states and countries, we decided we could not sign the agreement.

During the application process, which included extensive engagement with DFS, including onsite visits for a period of four weeks, Bittrex was responsive to all of DFS' requests for information. However, Bittrex respectfully but vigorously challenged DFS' attempts to apply traditional bank-centric regulatory rules to an entirely different model.

We were not provided an opportunity to see or even comment on the findings before they were made public. While we are saddened to no longer be serving the citizens of New York, we have been as transparent with NYDFS as we have been with other regulatory agencies both in the United States and around the world.

We do not challenge that Bittrex is on a journey to improving and maturing our compliance function. Less than 2 years ago, we were a company of only four people. Bittrex is a young, innovative company that believes in the future of blockchain technology. Bittrex will continue to mature its compliance program because we believe in being good corporate citizens, and because we believe in the rule of law. We will continue to work with the many other regulators, and we will continue to take constructive feedback to improve our ability to be the corporate citizens we have set out and committed to be.

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