

diffusetap
Virtual Event Series

What If the States Ruled Crypto Regulation?

Guest Speaker:



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DiffuseTap: What If the States Ruled Crypto Regulation?

Last time on DiffuseTap, Arry Yu, Executive Director at U.S. Blockchain Coalition, talked to us about what states can do for crypto regulation that the Federal government can't, which US states are driving blockchain innovation forward, and whether the US government has given up on regulating crypto on a national level.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)... straight from your armchair like a boss.

Meet the Speaker



ARRY YU is an educator, investor, and tech advisor with over 20 years of experience supporting emerging tech leaders and innovators. As Executive Director/Cofounder of the [US Blockchain Coalition](#) (USBC), Arry spearheads a coalition of state blockchain organizations and influencers, to position the U.S. at the forefront of digital innovation technologies.

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KENNY ESTES: Miss Arry Yu, can you please tell the good folks a little bit about your background and what you're up to?

ARRY YU: Hello, everyone. Good morning, and thank you Kenny and Ayla for having me with you. My name is Arry Yu. I am the Executive Director of the US Blockchain Coalition. We are the only premier organization in the United States that is focused at the state level. We're focused on policy coordination, analysis, and overall education advocacy of emerging technology and digital innovation across the United States.

KENNY: All right. That begs the obvious question. State level? What do you mean by that?

ARRY: Well, there's a famous quote by Justice Brandeis: "The states are the best laboratories for democracy". We really believe that. We're very states-focused. We're all about states rights, and maybe even a little bit of Federalist Papers, Alexander Hamilton. But there is a lot of friction in the whole political system across the US, especially in Washington, DC, and it's by design. We are going to see a lot more of that friction as we head into 2024.

People are expecting a lot of regulation and regulatory clarity, and a lot of movement and bills to be passed by Congress anytime now, but it's not going to happen. The states are a lot more nimble. We're all about hyper local communities coming together.

Every state is really different in how they operate and think about business. Every state has their own special Constitution as well. It allows us to innovate, working side to side and shoulder to shoulder with innovators, entrepreneurs, and investors, at a pace that the federal government just can't match.

KENNY: Okay, so the federal government is slow. It's funny because you've mentioned the Federalist Papers, and I was of the opinion that most of those ideas were chucked with the Civil War. But then yesterday, we had some interesting developments in Ohio, which shows a rise of state rights. So, is there regulatory clarity at the state level? Because you said it wasn't there at the federal level. Does that exist today? Are we heading in that direction?

ARRY: I think it depends on how you want to argue it. But I think when it comes to money transmission laws, there is a lot of clarity, and that typically has been led by the states. I think there is a dual banking system in the United States. Typically, the states have led that path, whereas the federal government leaves it to the state to push on that front.



KENNY: Okay, fair enough. So, there's the state level legislation for money transmitter licenses, which is why it's a pain for a lot of crypto exchanges to come into the US because they have to go state by state, versus the federal licensing, which isn't quite there yet. Is that what you're touching on?

ARRY: Well, yes and no. Generally, you can get your money transmission license through the state level, and there are different ways to do that. There are fast tracks to get that. You can also get it at the federal level, but it's a much more difficult process. When we're talking about regulatory clarity, I think we have a lot of precedent in the past because of how regulators see this space.

We have seen how they looked at the whole internet evolution, and we see how they regulate FinTech businesses. And so, at the end of day, if you are a business and you're thinking about setting up a business in tokenizing and playing in the digital asset field, you have to do everything you can to document how you can keep the consumer space safe, and how you keep investors safe. When you take it from that approach, as a compliance and regulation-first acting like a FinTech business, there is actually a lot more clarity than some might argue.

KENNY: So, the clarity kind of exists. But at a state level, it's more principles as opposed to legislation-driven. That makes sense. Obviously, you are focused at the state level. What are the biggest opportunities for states right now when it comes to crypto regulation?

ARRY: I think the biggest opportunity at the state level is working with entrepreneurs that are local in your state. Regulators and policymakers are not necessarily tech savvy. They're not necessarily innovating. And so, for them to guess at what is needed policy-wise or regulation-wise is kind of nonsensical. But innovators want regulatory clarity so that we know what we're allowed to do, and what we are not allowed to do.

At the state level, it really is about building public and private partnerships. It's about reaching out to your state regulators and saying, "Hey, I would like to do this business. I think it has a lot of legs. How can we work together shoulder to shoulder to make sure you have nothing to worry about regarding consumer safety and taxes and things of that nature? How can we work together to allow me to innovate and help this business grow in this particular locale?"

We see a lot of that activity happening across the United States. Rhode Island is a big example. They've had their special economic zone, and they have a lot of different activities around that. We've seen it with various states across the US, like California, Texas, and North Carolina.

We went through it as a workgroup. They might do it as a sandbox bill. But a lot of these types of activities really do indicate that the state is really thinking about how to not overly burden businesses, and they want businesses in their state.



KENNY: You mentioned a couple of the big states right now, like California and Texas. What are the other big ones where you're seeing a lot of crypto innovation?

ARRY: We recently released a [report](#) on this and just by looking at the data, probably the most active states are California, New York, Florida, and Texas. But there are other states that have activity, like Georgia. [Georgia has a lot of activity](#), but maybe not a lot of investors. Looking at my report here, we have a lot of high per capita investments in Nevada, Delaware, New Jersey, Wyoming, and Utah. There is a lot of activity in Tennessee regarding health care businesses, Nevada, again, with gaming, and Maryland, with a lot of government use cases.

KENNY: Okay, that's actually a lot more states. I thought it was just California, Wyoming, Montana, and that's the end of my list. It sounds like a lot more innovation is happening in other states, and people are getting on board with it. Scott had a good question here in the chat. A knock on the state-by-state approach is that it's a pain in the ass for the entrepreneur. Every time they want to expand into a new state, they have to figure it all out again. What are your thoughts on that?

ARRY: Yes, it is a pain in the ass for the entrepreneur. But if you're going to be playing in FinTech and in this space, it's going to be a pain in the ass no matter what because of things like money transmission licenses. I mean, even expanding globally is going to be a pain in the ass. And so, if you do the hard work upfront, working with the states, you're going to have that moat naturally, compared to your competitors or copycats. But you can also look at it as an opportunity to excel.

KENNY: Okay. We're going for a record on the number of times saying pain in the ass on a podcast. That's pretty alright. So, you're saying that it is going to be a pain. But if you're going in crypto and FinTech, you're going to have to deal with that anyways, which also on the flip side presents an opportunity. Because if you're the one that wants to deal with the headache, then you can make a real business out of it.

To the point you're making, it sounds like another risk for the state-by-state approach is that the federal government can just overrule it, right? If they don't like what the states are doing, they can just come in and quash it, and that represents a really big systemic risk to some of these crypto businesses. What are your thoughts about that?

ARRY: They could, but that's also going to be a big pain in the ass. Does the federal government really want to upset their constituents? I don't think so. By the way, the government is doing [regulation by](#)



enforcement right now, which means they've basically given up. They said, "Do you need to figure this out? Because the federal government is not going to." The federal government might come in and do something a little bit later in 2025 or '26 or '27 at earliest, but it's going to be up to the states to figure out which way to go and pick out those best practices.

KENNY: Interesting. I never heard that, but that makes total sense. So, your position is that because they're doing regulation by enforcement and not by legislation, then that basically presents a power vacuum, and the only logical people to step into that would be the states, right?

ARRY: That's right. I forget the formal name for it. The Chevron Doctrine is what it's called. It was in a Coindesk article, and it was talking about since 2015, '16, or '17, the SEC, the FinCEN, and all these different three or four letter agencies have had the chance to provide regulatory clarity and more federal guidance.

I mean, FinCEN has provided some federal guidance, and we have some definitions. But we haven't gotten the clarity that entrepreneurs and investors are looking for. And so, that is definitely going to come from the state level. That's where we are going to see which businesses thrive and succeed and where the consumers are excited.

KENNY: Okay, that makes sense. Assuming the people here have drunk the Kool Aid – which is just a terrible reference and I don't know why I made that – and they're on board with you, who do they talk to at the state level? What are the agencies? Do I just call up my state rep and hope for the best? If you are a crypto entrepreneur, how do you actually go about working with state regulators?

ARRY: We have feet on the ground. In the US Blockchain Coalition, we have people in every single state across the United States. Reach out to us or to me to direct you to your local state champion. Every state is really different. Here in Washington state where I am, you can actually reach out directly to the regulator, the department of financial institutions, and they have office hours and a special website in the center for FinTech information.

As a state person here in WA, we spent about three to four years building that relationship with the department of financial institutions to get to that point. Not every state is going to have that. If you're in Hawaii, it might be a little bit more of a hostile environment, so I wouldn't do that. I would reach out to Katie out of Hawaii. It really depends on the state, and I can happily connect you. Just find me on blockcoalition.org or email me at arry@blockcoalition.org, and I will be happy to connect you.



KENNY: I love that. That was smooth. All right. So, switching tacks a little bit, when we talked in our prep call, you had an interesting opinion about how the crypto industry overall is positioning themselves versus the non-crypto industry. In particular, I think antagonistic was the term you used. Do you want to riff on that a little bit? What are your thoughts there? What can we do to improve that?

ARRY: Well, I think one of the great powers that a lot of people see in this technology is that it's truly full stack. It's not just a protocol. There is a whole economic institution that is being embedded into protocols. But when you talk to and look at the community, it's very siloed. There are diehard crypto people, and there are diehard Bitcoiners, which are separate from the crypto people.

Also, there are diehard protocol people. And then there's the digital asset people, who are very excited about NFTs and the like. I think what's really important is that we all take a step back and realize that we are building a digitally native future. Today, we have a digital future that is based on the requirements of an analog world.

It's like, you would send mails this way, so let's just make an email program. However, it doesn't have any of the digital protections that we could have by using the technologies that we have just, even cryptography at the basics level. It's just reminding folks that we're building a digital future, and a lot of this sausage in the making that we're seeing right before our eyes is a part of the process.

And to not be a hater of one or another part of the space, but just embracing and trying it, and having conversations with people. And yes, maybe crypto may have a bad rap. There have been a lot of bad actors, and a lot of non-helpful media headlines. But remember, that's only one part of the story.

When I talk to a lot of the state agencies, sometimes they will give me a bunch of definitions. I go, "Did you just Google this?" and they go, "Yeah, I mean, that's our main source of information on these definitions and the use case", to which I say, "Well, you have to talk to the entrepreneurs, because Google is only going to give you so much of the information."

It's the same thing with anybody else that's new or even skeptical to this industry. Go and talk to communities, go to events, go to conferences, and you will see so much more than what has been portrayed in the media and Google.

KENNY: Totally. Actually, in a former life I was a high frequency trader, which did a very, very, very poor job of this to the point where we were portrayed as the villains, such as in a Michael Lewis book. But you do need to get outside of your tribes and expand and reach out and educate people because they're not evil.



People are just not tech savvy, or they're not into crypto, and that's a huge piece. I'm guessing it's a large chunk of what you're doing. You mentioned bad actors. I think SBF probably would fall in that category. How do we feel about his recent conviction?

ARRY: So good. I think there is another trial coming up in March, so I hope he's guilty on all those five charges as well. My biased opinion is that I hope he ends up with a Bernie Madoff condition, with 150 years in jail. His parents should also follow him there, too.

KENNY: Why is that? Why is that so important to you?

ARRY: I think that for those in this industry, we have a tendency to distrust institutions and government, the status quo. He was using consumer funds as his own piggy bank and just gambling away billions and billions of dollars, and lying to people over and over and over and over again, and then he put millions and millions of dollars into policymaker hands, into politician hands, and into buying football stadiums.

If after all that, he is able to get off with 10 years in jail or at prison, it will just speak to how broken the system is. For us to regain even just a little bit of faith back into our institutions, it will be really important that he paid the ultimate price for this completely. I can't even call him incompetent because he's not an incompetent guy. He robbed consumers and investors, and he needs to pay the price. It wasn't even like a crypto scam. It was just a bad human, and the entire leadership team there needs to be held responsible.



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Dennis Chookaszian

Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. [Read on](#)



Susan Brazer

CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan described the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. [Read on](#)



Raj Mukherjee J.D.

VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for [Coinbase](#) and [Binance](#) from scratch, and how investors can profit from crypto without getting caught in a taxation mess. [Read on](#)

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