BILL ANALYSIS

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ASSEMBLY THIRD READING
AB 129 (Dickinson)
As Amended January 23, 2014
Majority vote

BANKING & FINANCE   10-0

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|Ayes:|Dickinson, Morrell,    |    |    |                         |
|     |Achadjian, Bonta, Chau,|    |    |                         |
|     |Gatto, Linder, Perea,  |    |    |                         |
|     |Rodriguez, Weber       |    |    |                         |
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__SUMMARY__ : Specifies that current law which bans the issuance or
circulation of anything but lawful money of the United States
does not prohibit the issuance and use of alternative currency.

__EXISTING FEDERAL LAW__ provides that manufacturing counterfeit
United States currency or altering genuine currency to increase
its value is a violation of Title 18, Section 471 of the United
States Code (U.S.C.) and is punishable by a fine of up to
$5,000, or 15 years imprisonment, or both.

Possession of counterfeit United States obligations with
fraudulent intent is a violation of Title 18, Section 472 of the
U.S.C. and is punishable by a fine of up to $15,000, or 15 years
imprisonment, or both.

Anyone who manufactures a counterfeit United States coin in any
denomination above five cents is subject to the same penalties
as all other counterfeiters. Anyone who alters a genuine coin to
increase its numismatic value is in violation of Title 18,
Section 331 of the U.S.C., which is punishable by a fine of up
to $2,000, or imprisonment for up to five years, or both.

Forging, altering, or trafficking United States Government
checks, bonds, or other obligations is a violation of Title 18,
Section 510 of the U.S.C. and is punishable by a fine of up to
$10,000, or 10 years imprisonment, or both.

Printed reproductions, including photographs of paper currency,
checks, bonds, postage stamps, revenue stamps, and securities of

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the United States and foreign governments (except under the
conditions previously listed) are violations of Title 18,
Section 474 of the U.S.C. Violations are punishable by fines of
up to $5,000, or 15 years imprisonment, or both.

U.S.C. 5103 Section 31 declares that United States coins and
currency (including Federal Reserve Notes and circulating notes
of Federal Reserve banks and national banks) are legal tender
for all debts, public charges, taxes, and dues.

__EXISTING STATE LAW__ provides under Corporations Code Section 107
that no corporation, flexible purpose corporation, association,
or individual shall not issue or put in circulation, as money,
anything but the lawful money of the United States.

__FISCAL EFFECT__ : None

__COMMENTS__ : This bill makes clarifying changes to current law to
ensure that various forms of alternative currency such as
digital currency, points, coupons, or other objects of monetary
value do not violate the law when those methods are used for the
purchase of goods and services or the transmission of payments.
Modern methods of payment have expanded beyond the typical cash
or credit card transactions. Bitcoin, a digital currency (Also
called cryptocurrency), has gained massive media attention
recently as the number of businesses has expanded to accept
Bitcoins for payment. Long before the introduction of digital
currencies, various businesses have created points models that
reward consumers with points for completion of various tasks
such as spending a certain dollar amount, or even by purchasing
points with dollars. These point systems effectively operate as
currency allowing the consumers to buy a retail item or pay for
some type of service. Many communities across the United States
and in California have created "community currencies" that are
created by members of a community in conjunction with merchants
who agree to accept the alternative currency. These "community

currencies" are created for a variety of reasons, some of which
include encouraging consumers to shop at small businesses within
the community or increasing neighborhood cohesiveness.
"Community currency" has also become a form of political protest
as some communities that use such currency do so in protest of
United States monetary policies, or large financial
institutions. The following is a list of "community currencies"
in California:

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1)Barter Bucks Concord, California

2)Bay Bucks San Francisco, California

3)Berkeley Barter Network Berkeley, California

4)Berkeley Bread Berkeley, California

5)Central Pound Clovis, California

6)Davis Dollars Davis, California

7)Escondido Dollars Escondido, California

8)Fairbuck Fairfax, California

9)Humboldt Hours Eureka, California and Arcata, California

10)Mendocino SEED Fort Bragg, California

11)North Fork Shares North Fork, California

12)San Luis Obispo Hours San Luis Obispo, California

13)Sand Dollars Bolinas, California

14)Santa Barbara Hours Santa Barbara, California

15)Santa Monica Hours Santa Monica, California

16)Sequoia Hours Garberville, California

17)Sonoma County Community Cash Santa Rosa, California

18)TradeMarket Nevada City, California

19)Ukiah Hours Ukiah, California

The following is a list of the largest digital currencies
(cryptocurrencies) that are in use:

1)Bitcoin

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2)Ripple

3)Litecoin

4)Peercoin

5)Namecoin

6)Dogecoin

7)Primecoin

Recently, a new digital currency attempted to emerge, known as
COINYE (Originally called COINYE West) which was modeled after
Bitcoin and implied a connection to rapper Kanye West via a
cartoon picture of Kanye West as the currency's logo. A lawsuit
filed in a Manhattan federal court sought to stop COINYE on the
grounds that it used the rapper's image to cash in on his
popularity without his consent, damaging his reputation and
confusing consumers about the source of the cryptocurrency.

Facing legal action, creators of COINY have ended the project
and COINYE is now Lost in the World, but may have been nothing

more than a Dark Fantasy.

Bitcoin

Bitcoin has garnered the most attention of any other digital currency, but even for its increasing awareness in the marketplace, many people do not completely understand what it is or how it works. Bitcoin has been called the world's "first decentralized digital currency" and was created in 2009 by a programmer using the alias, Satoshi Nakomoto. The idea behind Bitcoin is that it does not have a central clearinghouse or any singular authority and it is not pegged to any real tangible currency. Its value arises from the value that people assign to it. It works via peer-to-peer network where tasks are shared amongst multiple interconnected peers who each make a portion of their resources (computing power) directly available to other network participants, without the need for centralized coordination by servers. The network depends on users who provide their computing power to reconcile transactions and keep the block chain. These users in the system are called "minors"

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because they can potentially be rewarded for their participation in the network with the creation of Bitcoins. Bitcoins are created (mined) as thousands of dispersed computers solve complex math problems. With the solving of the complete math problem Bitcoins are created. Bitcoin was designed to be a finite resource such as gold or silver, thus the total number that can ever be created is capped at 21 million Bitcoins. It has been estimated that the last .00000001 of a Bitcoin will be "mined" in 2140.

Transactions occur via public key encryption which generates two mathematically related keys. One key, the private key is retained by the individual and the other key is made public. The intended recipients public key is used to encode payments, which can only be retrieved by the associated private key. The payer in the transaction uses his or her own private key to approve the transfer to the recipient. Every Bitcoin transaction is registered in a public, distributed ledger called the block chain. New transactions are checked against the block chain to ensure that the same Bitcoins have not already been spent.

Is Bitcoin completely anonymous? No, it has been described as pseudonymous as it is somewhat like cash in that once Bitcoins have been received by one party no third party exists between the parties that knows their identities. However, the transaction information is recorded in the block chain as has every Bitcoin transaction that has occurred in history. Additionally, a person's identity, such as IP address, is recoded when the person makes a Bitcoin transaction at a Web site or uses one of the numerous services to exchange dollars from Bitcoins. One study, "Evaluating User Privacy in Bitcoin" by Elli Androulaki found that using behavior based analytical techniques could reveal the identities of 40% of Bitcoin users. AB 129 is a continuation of efforts that began last year to update, California's codes concerning payment systems. AB 129 amends Corporations Code Section 107, a largely outdated prohibition on the issuance and use of "anything but the lawful money of the United States." According to the literal meaning of the statute anyone that issues or uses digital currency, community currency, or perhaps even reward points is in violation of the law. However, the Assembly Banking and Finance Committee is unaware of any prosecutions, arrest or enforcement actions relating to this statute. Corporations Code Section 107

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can actually be traced back to the first state constitution of California, established in 1849, which contained a provision prohibiting the creation and issuance of paper to be used as money by any bank. This was a common prohibition across the states during the 19th century as the risk of states, or even non-state entities creating their own money was a real concern. In 1972, during a series of revisions to the California Constitution the currency provision was removed from the Constitution and placed in the Corporations Code.

FN: 0002981