

A Network of Innovative States

By Paul Watkins and Chris Beckmann

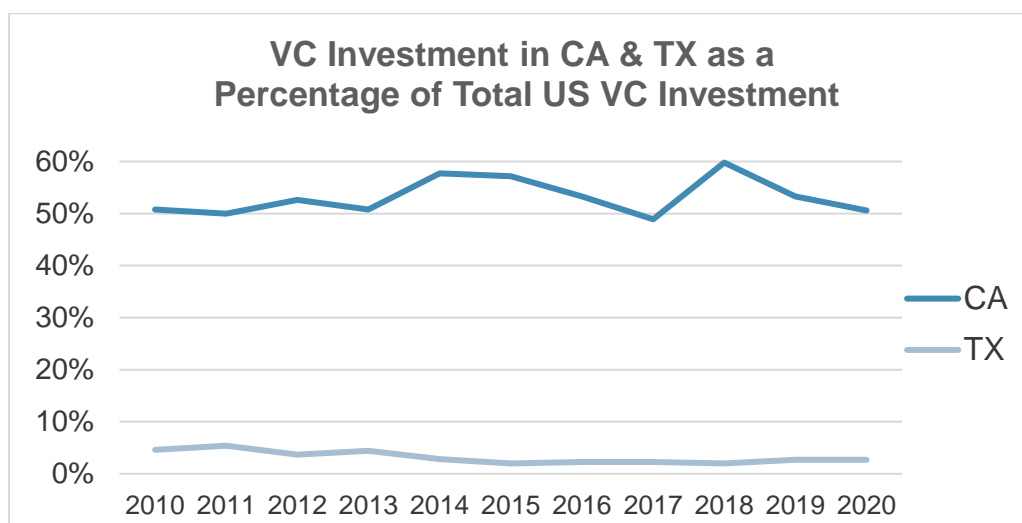
We live at a unique inflection point for innovation. Artificial intelligence, cloud computing, and blockchain technology promise to transform industries. As we move towards an economy driven by technology and remote workforces, states that value innovation need to lead these trends. As a first step, states should join together to build a market that is attractive to innovators and creates opportunities for their citizens.

“States should be as disruptive as the companies they wish to attract by joining together around a coordinated policy framework”

Why It Matters

States need a new innovation development strategy, or else a small group of coastal states will continue to dominate the market for startup investment. California has one of the highest regulatory and tax burdens of any state.¹ Despite the regulatory costs, California maintains a massive lead in innovation funding. California-based businesses received over half of all U.S. venture capital investment in 2020. Add in New York and Massachusetts, and three states accounted for 73% of U.S. venture capital investment.²

Compare Texas, which has seen increased venture capital investment over the past decade.³ Even though Texas tripled venture capital investment, it actually lost ground to California, where investment grew fivefold over the same period. As a result, Texas’ share of US venture capital investment declined from 5% to around 3%, as indicated in the chart below.⁴



Source: PWC Moneytree Report ⁵

Attracting venture capital investment is key to creating an enduring and resilient innovation economy. Venture capital funds invest in less than 0.2% of new US businesses, but Stanford researchers found that over 43% of companies that become public are VC-backed.⁶

Clearly, states need a new strategy. Running the same playbook from the last decade is likely to produce similar results. Instead of competing with California one-on-one, states need to join together to create a more attractive market for entrepreneurs, because investment will follow the most promising startups.

1. Engage and Market to the Innovation Community: State Secretaries of Commerce can issue a Request for Information (RFI) on GitHub, asking the innovation community how they can help innovators scale their businesses across state lines

2. Reciprocal Licensing: Reciprocal business licenses will save startups money on legal and compliance fees and let them focus on product and growth

3. Create Regulatory Clarity: State regulators can mitigate regulatory ambiguity for innovative business through cross-jurisdictional no-action and interpretive letters

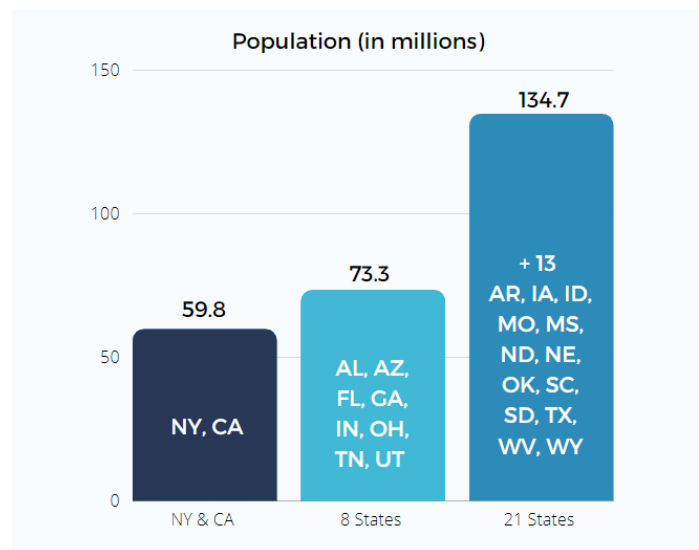
Recommendations

Creating a New Multi-State Market for Innovation

Innovative businesses tolerate the high regulatory burden of states like California, in part, because of the large consumer market they gain access to. A business can access 40 million potential customers with a license to operate in California.

States whose economic development strategy depends on reducing regulatory burdens within their state need to modify their approach and focus on the regulatory burden to operate *across* states. With different licensing and regulatory requirements for each state, it is often rational for businesses to operate in California rather than navigate a regulatory patchwork of states. Each state's individual burden may be lower than California's, but the collective compliance cost may be higher.

Teaming up can help states develop the ideal market for launching innovative products. If eight states were to coordinate their regulatory policies, they would create a market of 73 million people.⁷ A market like this that crosses multiple geographic regions with reciprocal licensing and aligned regulations could become the best place in the country to launch and scale a business. Add 13 more states with one party control of both the



legislature and governor's office, and the market would be over 130 million.⁸ That scale could create the best market in the world to launch a new business.

States have demonstrated that such coordinated efforts are possible. Under the last administration, 25 governors, representing both parties, committed to a deregulation agenda as part of the Governors' Initiative on Regulatory Innovation.⁹ Some states were reported to have cut or simplified 75% of their regulatory rules.¹⁰ If states are willing to cut their regulations altogether to encourage entrepreneurship, then simply aligning regulations and licenses with other states should be possible.

Other elements besides access to a large consumer market aid new business launches. Among these are access to talent.^{11,12} However, creating such a consumer market will build upon changes wrought by COVID that could reduce incumbent states' talent and capital advantages.

Remote work may erode incumbent states talent advantage. Economist Adam Ozimek found that the number of remote workers in America is expected to double pre-COVID levels to 36.2 million workers by 2025.¹³ Software developers overwhelmingly want remote work.¹⁴ States that have already positioned themselves as attractive places to live and work can seize this opportunity to keep home-grown talent in-state, or close any perceived talent gap. Streamlining tax and payroll regulations with other states could lower costs for businesses building a multistate remote workforce.

States could also jointly reform post-secondary education to develop the skills necessary to fuel the innovation economy. At the end of 2020, there were 1.4 million unfilled software developer jobs, but only 400,000 computer science graduates per year.¹⁵ Coordinating around efficient, lower-cost skill-training that results in lower debt levels could not only fill this talent gap, but also empower workers to start or join newer firms.

If the market and workers are elsewhere, then capital will have to follow. Due to the pandemic, remote pitch meetings have become far more commonplace, reducing once-obligatory trips to Sand Hill Road.¹⁶ Furthermore, many of the VCs themselves have moved. Chipping away at California's capital advantage may not be immediate. However, creating the largest and most attractive entrepreneurial environment in the country across states where many employees would prefer to live will catch funders' attention.

Regulatory Coordination to Create a New Multi-State Market

The regulatory coordination necessary to create a multi-state market has several key components. First, states jointly engage and market to the innovation community through coordinating a Request for Information, and establishing structures that ensure feedback from innovators to government. Second, states establish business license reciprocity by recognizing licenses issued by other states, so long as those states recognize their licenses. Third, states establish a process for no-action and interpretive letters that would presumably be recognized by other states. Finally, states should coordinate to enact regulatory frameworks that protect the benefits of innovation, while preventing new instances of deception or fraud.

To help stay on the cutting edge of regulation, states can jointly engage with the innovation community to understand where regulation is inhibiting business growth. The mere act of opening such collaboration channels would send an important signal to entrepreneurs. If a network of states can come together, create a sizeable market, and let innovators know they are open for business, businesses will listen. If state Departments of Commerce coordinate in issuing a request for information on regulatory issues—and commit to periodic meetings and updates to translate the feedback into action—they will make their markets more attractive.

“If a network of states can come together, create a sizeable market, and let innovators know they are open for business, businesses will listen.”

Similarly, licensing reciprocity frameworks can be extended to many different types of licenses, allowing innovators with regulated products to more easily access a larger market.

Establishing a process for no-action and interpretive letters with presumptively reciprocal recognition would enable states to address cutting-edge regulatory questions related to innovation. For example, novel questions often arise regarding how cryptocurrencies should be treated under existing securities, banking, and money transmission laws. Regulatory clarity provided by one jurisdiction would benefit all participating jurisdictions. Lessons learned from coordinating across licenses and key interpretive questions can help drive regulatory convergence where states can gain from coordination.

States can also gain from being the first to establish a regulatory framework that protects the benefits of innovation, while preventing new instances of deception or fraud. Currently, high-burden regulatory states like California and New York are often the first to impose regulatory requirements around innovation. For example, California was the first to pass a data privacy bill,¹⁷ and New York was the first to institute a digital asset regulatory regime.¹⁸

First-mover advantage gives these states a significant advantage in setting the terms of future regulation. Here again, a coordinated group of states could shift the conversation by leading a regulatory effort or joining together over a common alternative. Such leadership would send a clear signal to innovators regarding where they should start and grow their businesses.

Cooperation presents an opportunity to create the *best market in the world* to launch a new business.

A coordination framework can and should cross over many subject matters. For example, it would make much more sense for states jointly enact a common alternative to California’s data privacy law, rather than establishing dozens of separate variations. Focusing on a particular subject matter is likely to aid the establishment of this network of states. As a first step in coordination, states should address the regulatory issues facing digital asset and blockchain entrepreneurs. This industry’s pace of growth indicates significant potential for state economies. The blockchain and crypto industry received \$2.6 billion in funding in Q1 of 2021, more than the \$2.3 billion it raised in all of 2020.¹⁹ Investment grew

exponentially this year to \$5.2 billion in Q2 of 2021 and \$6.5 billion in Q3 of 2021.²⁰ This space is attracting investment, in part, because of the technology's potential to replace intermediaries in the financial system and elsewhere. This could increase financial system accessibility and make businesses run more efficiently.

The transformative potential of digital assets presents many regulatory interpretive issues. Regulatory compliance for digital asset companies is uncertain, complex, and expensive. In most states, cryptocurrency trading platforms and consumer-facing fintechs must comply with state money transmitter licensing requirements. Licensing and compliance can be time and resource intensive for many small and growing startups. In fact, costs for lawyers, compliance officers, and associated staff time can be many multiples of the required licensing fees²¹—and such fees are not insignificant. A new digital asset company must pay over \$175,000 in fees associated with money transmitter licensing.²² Then, it needs to post a minimum of \$6.9 million in surety bonds. Each year, the company must pay an estimated \$136,000 in fees to remain in compliance.

Regulation-induced time delays and costs burden startups attempting to access large portions of the U.S. market. Fintech expert Brian Knight explains, "Having to research and comply with multiple regulators or having to pay for multiple licenses is inefficient, time consuming, and costly for companies, especially new firms with limited resources. This lack of competition imposes a direct cost on consumers and benefits incumbents who are able to capture the surplus that would otherwise be competed away."²³ For states willing to coordinate, these regulatory issues provide a meaningful path to distinguish themselves and create a more uniform set of requirements for innovators.

Many states recognize the need to attract emerging businesses. Acting together can empower states throughout the country to lead in launching the next generation of innovative companies and capture the attendant economic growth and opportunities for their citizens. Using digital assets as the first use case, this paper will provide the legislative framework for states to act together on innovation and begin establishing their states as the best place to start a business.



1. Engaging and Marketing to Innovators

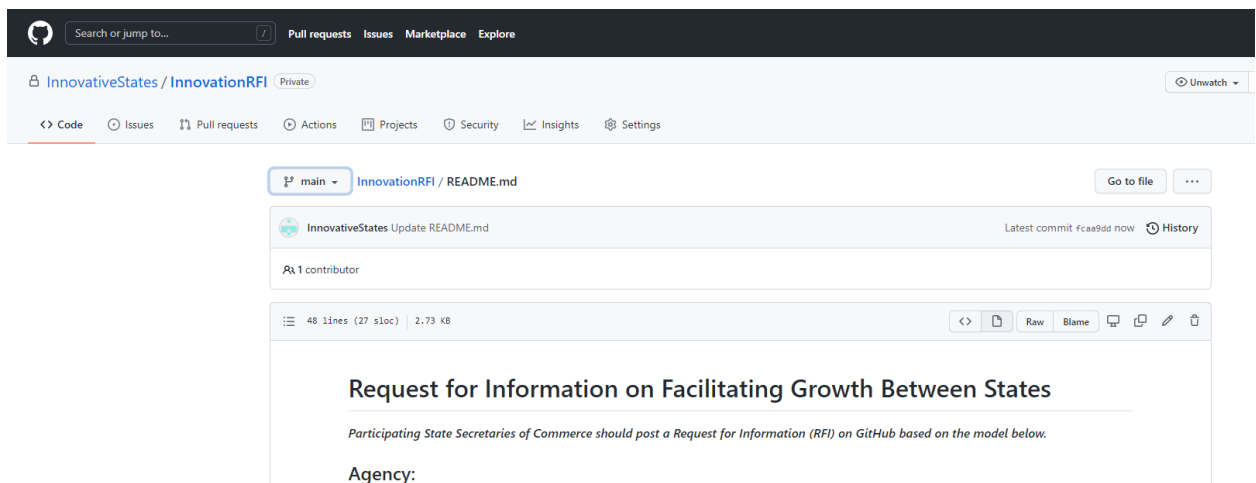
States that value innovation shouldn't wait for innovative businesses to hire lobbyists and associations to come forward to them with proposals. They should go directly to the community of innovators and let them know that their states are open to innovation and have taken steps to help them scale their business.

The digital asset space has an active community that can help identify further opportunities for innovation. Secretaries of State Departments of Commerce (or similar agencies) should leverage the digital asset community in this respect.

Exhibit [A] contains a sample Request for Information (RFI) for a network of State [Commerce] Secretaries to post on GitHub, containing the following questions:

- How can our states coordinate licenses or regulations to facilitate innovation in the digital asset space and make it easier to scale between our states?
- For example, what regulatory coordination would be helpful regarding tax treatment of digital assets, employment or tax issues related to remote work, making or accepting payments, or paying or receiving wages in digital assets?
- Are there any new licensing or regulatory structures our states could adopt, such as special purpose depository institutions, to facilitate the growth of digital assets?
- Is there any license you possess in another state, such as a special purpose depository institution, that our state could recognize or provide clarity for?
- Can our states encourage federal agencies to provide clarity with any regulatory issues you have at the federal level?

In addition to issuing this RFI, the state Departments of Commerce should develop a structure that regularly brings proposals for joint-regulatory reform before the network of states. Initially, states could commit to regularly meet to review the responses, and translate the feedback into potential statutory or regulatory responses. These potential responses could also be posted to GitHub for further comment and development. State Departments of Commerce could also expand their in-state engagement to include soliciting proposals that could be implemented by the network of states.



2. Reciprocity in Licensing and Exams

Innovation is occurring in many industries that require state licenses or are subject to state supervision. These licenses could be reformed based upon a simple principle: if one state recognizes a license issued in another state, then the other state should recognize the license from the first state. The same principle could apply to supervisory examinations.

For digital asset businesses, one of the key licenses is a money transmission license. Many efforts to reform money transmission licenses have existed over the years. For example, the Conference of State Bank Supervisors has taken steps aimed to improve the licensing and supervision process.²⁴ However, these efforts are often impeded by the goal of uniting all 50 states. A subset of states can accelerate reciprocity by requiring it by statute, while still participating in 50-state coordination efforts.

Applicants would still be required to pay state licensing fees and certify that they will comply with relevant consumer protection laws under this reciprocity framework. Innovators will see benefits in the form of reduced costs on lawyers and compliance consultants, and a quicker path to market.

Digital assets and money transmission licensing are a sensible first step. But this reciprocity framework could be expanded to any type of business licensing.

A Simple Framework: License by Reciprocity

- (1) The [Commissioner] shall accept the license of an applicant who is licensed in any state that accepts a license issued by the [Commissioner], unless the [Commissioner] determines that the regulatory structure of the other state is likely to harm consumers.
- (2) If the [Commissioner] determines that the other state's regulatory structure is likely to harm consumers, the [Commissioner] must provide the Governor and state legislature with a list of reasons why the [Commissioner] determines the other state's regulatory structure is likely to harm consumers.
 - a. The [Commissioner] must submit the list within 30 days of rejecting a reciprocal license application.
 - b. An applicant may file with the Governor an appeal to challenge the [Commissioner]'s finding of likelihood of harm to consumers within 60 days of receiving notice that the applicant's reciprocal license has been rejected.
 - c. The Office of the Governor must respond to an appeal within [60] days.
- (3) To be eligible for reciprocity, the applicant must provide the [Commissioner] with:
 - a. A certification of license history from the agency responsible for issuing a license in each state in which the applicant has been licensed to conduct money transmission business activity
 - b. A nonrefundable reciprocal licensing application fee in the amount [required by law of this state other than this [Act] or specified by the department by rule];
 - c. A certification signed by an executive officer of the applicant affirming that the applicant will conduct its business activity with or on behalf of a resident in compliance with this [Act].

3. Tools to Accelerate Innovation

Regulatory ambiguity can discourage innovation. Companies in the emerging digital asset space face uncertainty regarding which regulations apply to them, or will apply, as their products and services expand. This presents challenges for both compliance and strategic planning.

State regulators can leverage No-Action Letters (NALs) and Interpretive Letters to provide regulatory clarity to young and growing digital asset companies. The SEC issues NALs to particular businesses regarding certain regulations under specific circumstances,²⁵ including for digital assets.²⁶

NALs will produce fewer beneficial effects for innovation if there are separate criteria and processes for every state. States should standardize the NAL application and review process across jurisdictions, allowing a digital asset business to apply for regulatory relief in an efficient and consistent manner.

Interpretive Letters also provide an opportunity for states to provide clarity for companies inquiring about whether a certain state regulation pertains to their activity. Once a state regulator issues an interpretive letter, states should establish that acting in good faith reliance on the interpretation is a legal defense.

Exhibit [C] contains language to authorize an NAL and interpretive letter program. The program would contain several core elements:

- **Universality:** Any state department or agency that regulates business activity could participate.
- **Transparency:** The regulator would be required to post NALs and interpretive letters publicly to demonstrate to innovators the types of regulatory clarity that are available. Regulators would also engage in a public awareness campaign to inform innovators about the program.
- **A Good Faith Defense:** A business operating in good faith conformity with a regulator's NAL or interpretive letter would have legal protections.
- **Consistency:** Standardized application criteria would streamline the process for applicants.
- **Reciprocity:** An NAL or Interpretive letter that is adopted in one state would be presumptively adopted in any state that presumptively adopts the first state's NALs and interpretive letters.

As state regulators issue NALs and interpretive letters, states will maintain the authority to bring consumer protection enforcement if the applicant does not follow the terms outlined in the relevant letter.

Interpretation with Immediate Impact: MTL Exemption for Non-Custodial Digital Asset Activity

Some states, including Texas²⁷ and Kansas²⁸ have clarified how money transmission applies to digital asset businesses. Money transmission laws in many states remain broad, leaving certain actors in the digital asset space uncertain whether or how they apply.

Digital asset custodians present the most significant risk of loss that should be addressed by licensing, as recent testimony to the Senate Joint Economic Committee noted.²⁹ As a result, state regulators could clarify that money transmission laws apply only to digital asset business that custody customer funds, such as digital asset trading platforms and wallet providers. This clarification would ensure that consumers remain protected, while saving miners and blockchain developers from unnecessary regulatory risk.

Looking Ahead

If a network of states can come together and establish reciprocal licensing and exams, standardized processes for regulatory clarity, and better solutions for a remote workforce, they will create the best market in the world for innovation in the digital asset space. There are still further opportunities for regulatory improvement, including establishing uniform data breach standards and charters for financial institutions to custody digital assets. However, creating a state innovation network is innovative in itself, and will signal to the world that these states are ready to drive the next generation of innovative businesses.

Exhibits – Model Language

Exhibit [A] – Request for Information on Facilitating Growth Between States

Participating State Secretaries of Commerce should post a Request for Information (RFI), including on GitHub, based on the model below.

Request for Information – Facilitating Digital Asset Innovation

Agency:

[Participating State Secretaries of Commerce]

Action:

Request for Information

Summary:

“The Secretaries are issuing this Request for Information (RFI) to assist the Departments of Commerce in identifying regulatory modifications that will allow digital asset businesses to expand their businesses across states.

Supplementary Information

Each state below has taken meaningful steps to make their state welcoming to entrepreneurship. Now each state would like to reduce the regulatory burden that its entrepreneurs encounter when expanding a business across state lines. The Secretaries wish to reduce these regulatory burdens for many types of businesses.

As a first step, the Secretaries note that regulatory inconsistencies and ambiguity relating to digital assets can pose barriers for innovative businesses looking to expand their business across states. The Secretaries seek to identify regulatory challenges, institute reciprocal license recognition, and harmonize regulations between states in order to allow digital asset businesses to offer services to a larger consumer market across our respective states.

Respondents may address any one or more of the following topics below:

1. How can our states coordinate licenses or regulations to facilitate innovation in the digital asset space and make it easier to expand between our states?
2. For example, would regulatory coordination be helpful on the following issues, and if so, how should that coordination occur?
 - a. Tax treatment of digital assets;
 - b. Employment or tax issues related to remote work;
 - c. Making or accepting payments in digital assets; or
 - d. Paying or receiving wages in digital assets.

3. What new licensing or regulatory structures could our states adopt to facilitate the growth of digital assets?
4. Is there any license or authorization related to digital assets that you possess in another state, such as a money transmission license, or special purpose depository institution, that our states could recognize or provide clarity for in any way?
5. What actions could our states take jointly to address regulatory uncertainty from the Securities and Exchange Commission, or other federal agencies that may inhibit innovation, deprive consumers of product functionality, or otherwise harm our states' consumers and entrepreneurs?
6. What actions could our state banking regulators take jointly to facilitate the use of digital assets within chartered banking institutions or financial services generally?
7. Aside from digital assets, what are regulatory burdens your business faces from operating across state lines that could be jointly addressed by our states?

Exhibit [B] – Reciprocity for MTL Licensing and Exams

Licensing Reciprocity

Section []: License by Reciprocity

- (1) The [Commissioner] shall accept the license of an applicant who is licensed in any state that accepts a license issued by the [Commissioner], unless the [Commissioner] determines that the regulatory structure of the other state is likely to harm consumers.
- (2) If the [Commissioner] determines that the other state's regulatory structure is likely to harm consumers, the [Commissioner] must provide the Governor and state legislature with a list of reasons why the [Commissioner] determines the other state's regulatory structure is likely to harm consumers.
 - a. The [Commissioner] must submit the list within 30 days of rejecting a reciprocal license application.
 - b. An applicant may file with the Governor an appeal to challenge the [Commissioner]'s finding of likelihood of harm to consumers within 60 days of receiving notice that the applicant's reciprocal license has been rejected.
 - c. The Office of the Governor must respond to an appeal within [60] days.
- (3) To be eligible for reciprocity, the applicant must provide the [Commissioner] with:
 - a. A certification of license history from the agency responsible for issuing a license in each state in which the applicant has been licensed to conduct money transmission business activity, including disciplinary information;
 - b. A nonrefundable reciprocal licensing application fee in the amount [required by law of this state other than this [Act] or specified by the department by rule];
 - c. A certification signed by an executive officer of the applicant affirming that the applicant will conduct its business activity with or on behalf of a resident in compliance with this [Act].

Exams Reciprocity

Section [] Supervision by Reciprocity

- (1) The [Commissioner] shall accept the examination report prepared by any state that accepts the examination report prepared by the [Commissioner], unless the [Commissioner] determines that the other state's laws, regulations, or examination procedures would cause the acceptance of that state's examination reports to be likely to harm consumers.
- (2) If any state that accepts an examination report prepared by the [Commissioner] is conducting an examination of an entity licensed in this state, then the [Commissioner] shall provide information specific to this state for the other state to evaluate during its examination. Correspondingly, the [Commissioner] shall obtain information specific to another state that accepts examination reports prepared by the [Commissioner] when conducting an examination of an entity licensed in this state.

- (3) If the [Commissioner] determines that the other state's laws, regulations, or examination procedures would cause the acceptance of that state's examination reports to be likely to harm consumers, the [Commissioner] must provide the Governor and state legislature with:
- a. A list of reasons why the [Commissioner] determines the other state's laws, regulations, or examination procedures would cause the acceptance of that state's examination reports to be likely to harm consumers.
 - b. A list of revisions to the other state's laws, regulations, or examination procedures that would significantly reduce the risk that acceptance of that state's examination reports is likely to harm consumers.

Exhibit [C] - No-Action and Interpretive Relief

Principle: State regulators should provide innovative businesses with regulatory certainty through Interpretive or No-Action letters. The application and approval process should be standardized across jurisdictions for applicants.

Insurance of Interpretive or No-Action Letters

Section 1: Definitions

- (1) "Applicable agency" means a department or agency of the state that by law regulates a business activity or persons engaged in such business activity, including the issuance of licenses or other types of authorizations.
- (2) "Opinion" means an Interpretation or No-Action Statement, or other guidance or direction issued by the Applicable Agency.
- (3) "Interpretation" means an application of law to general or specific facts.
- (4) "No-Action Statement" means a statement committing to take no enforcement action in a described situation.

Section 2: Issuance of Opinions

- (1) The Applicable Agency may issue an Opinion in response to a specific request from a member of the public, business, trade association, or on [his] own initiative. The Opinion may be in any form the Applicable Agency deems appropriate.
- (2) The Applicable Agency shall make Opinions available to the public. A published Opinion must be redacted to preserve the confidentiality of the requesting party, unless the requesting party consents to be identified in the published Opinion.
- (3) No person shall be liable for any act done or omitted in a good faith attempt to comply with any rule or Opinion issued by the Applicable Agency, notwithstanding that after the act or omission has occurred, the rule, interpretation, or Opinion upon which reliance is placed is amended, rescinded, or determined by judicial authority to be invalid for any reason.

Section 3: Reciprocity

- (1) An Opinion granted to a person or business in another state on a similar issue under a similar legal provision and presented to the Applicable Agency should presumptively be adopted in this state, provided the other state presumptively adopts such Opinions from this state. Regardless of this presumption, the Applicable Agency should not adopt an Opinion that is likely to harm consumers, or limit entrepreneurship in this state.
- (2) If the Applicable Agency determines that the other state's Opinion is likely to harm consumers, or limit entrepreneurship in this state, then the Applicable Agency must provide the Governor

and state legislature with a list of reasons why the Applicable Agency determines the other state's Opinion is likely to harm consumers, or limit entrepreneurship in this state.

Section 4: Requests for Opinions

- (1) The Applicable Agency may formally respond to written requests from interested persons for Opinions that confirm that the division will not institute enforcement proceedings against certain specified persons for engaging in certain specified activities.
- (2) A person shall submit an Opinion request in writing. The request shall contain the following:
 - a. A brief summary of the statutory and regulatory provisions to which the request pertains.
 - b. A statement of the relevant facts.
 - c. A discussion and analysis of the law as it relates to the facts.
 - d. A statement of the legal authority for granting the request.
 - e. A statement of the reasons an Opinion is appropriate.
 - f. A statement explaining any adverse or beneficial effect on the public interest resulting from the granting of the request.

Section 5: Public Awareness

- (1) The Applicable Agency shall engage in public awareness efforts to inform the public of the types of Opinions that are available to applicants.
- (2) The Applicable Agency shall include a page on a public website indicating the types of Opinions that are available to applicants.

References

- ¹ The Mercatus Center's State RegData tracker shows that as of 2020, California has 396,608 restrictions, or instances where the state government either compels or forbids a given activity. New York ranks second with 296,296 instances. See "U.S. State Snapshots," Mercatus Center (2020) <https://www.quantgov.org/state-snapshots>
- ² Chris Metinko and Gené Teare, "More Opportunity Than Capital: Venture Dollars Spread Throughout the US," Crunchbase (May 20, 2021) <https://news.crunchbase.com/news/fastest-growing-states-venture-capital-investment/>
- ³ Texas received \$4.4 billion in Venture Capital investment in 2020, tied for the #4 state in the US with Washington. California, New York, and Massachusetts were #1,2, and 3 respectively. See Chris Metinko and gene Teare, "More Opportunity Than Capital: Venture Dollars Spread Throughout the US" Crunchbase News (May 20, 2021), <https://news.crunchbase.com/news/fastest-growing-states-venture-capital-investment/>
- ⁴ Texas venture capital investment grew from \$1.1 billion in 2010 to \$3.5 billion in 2020. California venture capital investment grew from \$12 billion to \$66 billion in 2020. See PWC/CB Insights MoneyTree Report 2010-2015 <http://ssti.org/sites/default/files/VC%20by%20State.xls> and PWC/CB Insights MoneyTree Report Q4 2020 https://www.cbinsights.com/reports/CB-Insights_MoneyTree-Q4-2020.pdf?
- ⁵ "PWC/CB Insights MoneyTree Explorer," PricewaterhouseCoopers, (2020), [https://www.pwc.com/us/en/industries/technology/moneytree/explorer.html#/?](https://www.pwc.com/us/en/industries/technology/moneytree/explorer.html#/)
- ⁶ Ilya A. Strebulaev and Will Gornall, "How Much Does Venture Capital Drive the U.S. Economy?," Stanford Graduate School of Business (October 21, 2015), <https://www.gsb.stanford.edu/insights/how-much-does-venture-capital-drive-us-economy>
- ⁷ Alabama, Arizona, Florida, Georgia, Indiana, Ohio, Tennessee, and Utah have a combined population of 73.3 million people per 2020 Census data. Source: APPORTIONMENT POPULATION AND NUMBER OF REPRESENTATIVES BY STATE: 2020 CENSUS, US Census Bureau (2021), available at: <https://www2.census.gov/programs-surveys/decennial/2020/data/apportionment/apportionment-2020-table01.pdf>
- ⁸ Arkansas, Iowa, Idaho, Missouri, Mississippi, North Dakota, Nebraska, Oklahoma, South Carolina, South Dakota, Texas, West Virginia, Wyoming have a combined population of 134.7 million people, per 2020 Census data. *Id.*
- ⁹ Evie Fordham, "Trump admin touts signing up 700 state and local leaders for 'drain the swamp' initiative in 1 year," Fox Business (October 21, 2020), <https://www.foxbusiness.com/politics/trump-administration-governors-deregulation-florida-colorado>.
- ¹⁰ *Id.*
- ¹¹ Monica Blaga and Diederich Bakker, "Entrepreneurial Startup Ecosystems: What Can Smaller Ecosystems Learn from Their Top-Tier Counterparts? Present Considerations and Future Directions," HHBIC (March 29, 2021) <https://esignals.fi/research/en/2021/03/29/entrepreneurial-startup-ecosystems-what-can-smaller-ecosystems-learn-from-their-top-tier-counterpartspresent-considerations-and-future-directions/>
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- ¹³ Adam Ozimek, "Economist Report: Future Workforce," Upwork (2021) <https://www.upwork.com/press/releases/economist-report-future-workforce>
- ¹⁴ BILL DOERRFELD, "Majority of Software Engineers Want Remote Work Options," DevOps (August 24, 2021) <https://devops.com/majority-of-software-engineers-want-remote-work-options/>
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- ¹⁶ Alyssa Newcomb, "What founders and venture capitalists have to say about fundraising during COVID," Forbes (February 20, 2021) <https://fortune.com/2021/02/20/covid-venture-capital-fundraising-vcs-founders-brainstorm-reinvent/>
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https://www.davispolk.com/sites/default/files/speech-june-3-2015_nydfs_announces_final_bitlicense_framework_regulating_digital_currency_firms.pdf

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About the Authors

Paul Watkins focuses on state and federal regulatory issues surrounding fintech, including payments, consumer and small-business lending, open banking, data privacy, and digital assets. His regulatory background includes designing the first state and federal fintech sandboxes, consumer-protection enforcement, securities-litigation defense, and helping to found the first international and domestic regulator networks promoting innovation in financial services.

Mr. Watkins joined Patomak from the Consumer Financial Protection Bureau, where he founded the Office of Innovation, and was the Bureau Director’s primary advisor on innovation. He designed the Bureau’s policies on no-action letters, trial disclosures, and compliance sandbox tests. He signed Bureau letters issued under those policies on topics ranging from mortgages to small-dollar loans, and co-authored Bureau statements on alternative data and artificial intelligence. While at the CFPB, he helped

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Before joining the CFPB, Mr. Watkins led the Civil Litigation Division of the Arizona Attorney General's Office, where he managed the state's enforcement of consumer protection, data privacy, antitrust, and civil rights laws. There, he designed legislation establishing Arizona's Fintech Sandbox, which became the model for other state-based fintech sandboxes. He also drafted one of the first U.S. laws defining utility tokens.

Earlier in his career, Mr. Watkins was an M&A and capital markets associate at Simpson Thacher & Bartlett, as well as a securities litigation associate at Covington & Burling LLP during the financial crisis. He clerked for Judge Dennis W. Shedd on the U.S. Court of Appeals for the Fourth Circuit. He received his J.D. from Harvard Law School and his undergraduate degree from Hillsdale College.

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