WASHINGTON — The New Jersey Assembly is weighing whether to pursue legislation that would make the state a haven for digital currency businesses.

The chamber's Financial Institutions and Insurance Committee is scheduled Thursday to hold a fact-finding hearing on the issue of the expanding role of digital currency and existing regulatory schemes.

If the state pursues legislation, it would signal a different approach from how New York and a group of state regulators are proposing to deal with digital currencies. They are seeking to regulate such companies under existing laws. A New Jersey bill may also signal the first time lawmakers have specifically sought to attract digital currency businesses.

"It is a significant step because it suggests that more states and other governmental bodies are taking an interest in Bitcoin and consider it to be a legitimate technology with revolutionary potential," said Houman Shadab, a professor of law at New York Law School who is scheduled to testify at the hearing. "Lawmakers often have more power to incentivize businesses than do regulators."

New Jersey Assemblyman Craig Coughlin, who chairs the financial institutions panel, called the hearing in an effort to learn more about digital currencies, including their uses, the current regulatory approach and recommendations for actions, a spokesman said.

"Chairman Coughlin wanted to do a hearing on digital currency because he realized that the role of digital currency is expanding in society and felt that the legislature should consider how to ensure New Jersey is prepared to deal with that ever expanding role," the spokesman said. "So far, no
legislation is up for a vote. Thursday's discussion could be a first step toward legislation."

The hearing appears tilted toward voices that are supportive of an expanding role for digital currencies. Many are hoping New Jersey will take a more flexible approach than New York, which issued a proposal last year for how to supervise such businesses.

"Regulators generally don't have discretion to give carrots as much as they have to give sticks," said Marco Santori, counsel at Pillsbury Winthrop Shaw Pittman, who will also testify before the panel.

Santori said lawmakers have control over issues that regulators can't touch, like taxation and other incentives, that can make a jurisdiction more welcoming place for certain types of businesses.

"Legislatures have far greater power to affect an industry like Bitcoin and digital currency than do regulators," Santori said.

Shadab added that "New Jersey may want to make their digital currency laws consistent with other states or even try to compete to the extent companies have a choice of where to be licensed or regulated."

But others warn New Jersey's moves might have a limited impact.

"This could be a first step in creating a very welcoming climate for digital currencies, but the digital currency world should not get too excited because New Jersey is only one state," said Carol Van Cleef, co-chair of the Global Payments practice group at Manatt, Phelps & Phillips. "While you may be able to operate from New Jersey more easily than in other states - depending upon what the legislative changes look like - it is not going to resolve the challenges an organization may face if it wanted to do business with customers who are residents in other states."

She also warned that "the probability that it happens in a timely and orderly fashion is unlikely."

"In a number of states they don't need to change any laws; it is a matter of interpretation," she said. "In certain states like New York, the decision has been made to craft a regulatory approach which is not really that new. It is really a tweaking of the money transmitter licensing laws that exist there now."

Bitcoin, Ripple and other decentralized Internet protocols have gained attention for their potential to transfer value faster and at lower cost than legacy payment systems. Cryptocurrencies also offer a number of innovative applications in areas like notary services and tracking asset ownership. However, Bitcoin in particular has received negative attention for its role in illicit activities.

Law enforcement officials have complained that the transactions are too difficult to trace, despite the network's real-time public ledger, known as the blockchain. On Wednesday, Ross Ulbricht was found guilty in a federal court in Manhattan of running the Silk Road, an online black market where bitcoins were used to buy illegal drugs.

Jerry Brito, executive director at CoinCenter, a nonprofit that advocates for cryptocurrencies like Bitcoin, said it continues to be a problem for firms to deal with regulatory inconsistencies between states.
"There is a lot of uncertainty and there is not any consistency ... when you have to apply for 48 different [state] licenses they are all very different with different requirements that is pretty burdensome," he said.

Brito said he was encouraged by a proposal from the Conference of State Bank Supervisors last year because it was "coming out and trying to create an environment where all of the states can have a basic frame of reference so that we can get some consistency."

New York's effort has also drawn significant attention. Benjamin Lawsky, the superintendent of the state's Department of Financial Services, said he expects to propose a second version of his plan soon. The first drew more than 3,000 public comments.

"The proposal they put out was a good first step but it had a lot of issues with it," Brito said. "It did not take into account some of the unique qualities of the technology."

If New Jersey legislators act — which is still a big if at this stage — observers said they hope they learn from the feedback already given to New York's efforts.

"There are important lessons to be learned from New York revising its Bitlicense proposal including that, in many ways, the original proposal was too burdensome and too broad in terms of what companies it applied to," Shadab said. "While we wait for the revised New York Bitlicense, other states are considering the type of regulation that is appropriate for digital currency businesses."