Digital Currency, Blockchains, and the Future of the Financial Services Industry

Profs. Geoffrey Miller and David Yermack
NYU Law School LAW-LW.12371.001
NYU Stern School FINC-GB.3324

Tisch Hall 200, 44 West 4th Street
Tuesdays & Thursdays, 1:30 – 2:50
Spring 2017

Course overview
Recently Bloomberg summarized a new research report issued by McKinsey & Co:

*Firing people won’t be enough to save the world’s biggest banks from technological and regulatory changes that have reshaped the industry - whole businesses must go, according to McKinsey & Co. Almost every bank will have to quash aspirations to be all things to all customers . . . Only three to five global full-service banks will survive, McKinsey said.*

This course covers digital currencies, blockchains, and related topics in the FinTech area, perhaps the most significant innovation in the financial world since the advent of double-entry bookkeeping centuries ago. The technology appears to represent an existential challenge for major parts of the finance industry. It is now commonly suggested by experts such as McKinsey that commercial banks and stock exchanges may no longer exist, or may become much smaller, within the next 10 to 20 years, with increasing volumes of payments and exchange taking place on a peer to peer basis.

We will begin with a study of the nature of money and legacy payment and banking systems. We will then study the emergence of stateless, cloud-based digital currency systems since 2009. Further lectures will explore threats that blockchain technology poses to incumbent firms and their resulting attempts to co-opt the technology into existing business models. We survey related issues including hacking, “smart contracts,” governance, and emerging regulation.

**Learning Outcomes:** The goal of this course is to equip the students to better understand the law and business of blockchain technology, both in its initial application in the digital currency Bitcoin, as well as in the applications currently being explored for a wide variety of uses and functions. The course is also intended to create a bridge between law students and business students that will enhance the quality of their communications after they enter into their careers.

**Course organization**
The course meets twice a week for lectures, Tuesdays and Thursdays from 1:30–2:50. The course will feature a number of guest speakers from industry and government.
We will follow the academic calendar of the Stern School, with the first class meeting January 31 and the final class on May 4. We will not hold class on Tuesday, February 21, even though this date is a “legislative Monday” at the Law School.

Readings
In addition to the articles listed with each lecture topic below, we will use the following sources, all of which can be obtained at no cost:

- Carnell, Macey & Miller, *The Law of Financial Institutions* (6th edition, forthcoming). Excerpts from a draft of this textbook will be distributed to students via photocopy.

- Narayanan et al., *Bitcoin and Cryptocurrency Technologies*. This book, a companion to the Princeton open on-line course in digital currency, is available in hardcover, and a draft of the manuscript can be downloaded at:
  
  https://d28rh4a8wq0iu5.cloudfront.net/bitcointech/readings/princeton_bitcoin_book.pdf

- Goldman Sachs Equity Research, 2016, “Profiles in Innovation: Blockchain.”
  

Students are encouraged to stay current on the topic by following recent developments:

- One of the leading FinTech organizations, R3CEV, each Friday devotes a section of its website to “The Weekend Read,” which typically includes the most interesting feature journalism and research reports published in the FinTech area. The website includes an archive and can be accessed at, for instance:
  
  https://www.r3cev.com/blog/2016/12/11/the-weekend-read-dec-11

- For daily breaking FinTech news, the authoritative source is
  
  http://www.coindesk.com/

Evaluation
Evaluation will be based on student papers or projects that will be due during the May exam period.

Lecture topics
An approximate list of the course’s lecture topics appears below. We may deviate from this schedule based upon factors including the pace of individual lectures and the availability of guest speakers.
Jan 31
Course introduction – Miller & Yermack

Feb 2
Payment systems 1 – Miller
  • Narayanan et al, Preface pp 3-22.
  • Carnell, Macey & Miller (52-58; 65-78)

Feb 7
Payment systems: the problem of bank runs and panics 2 – Miller
  • Carnell, Macey & Miller (21-23; 33-38; 199-204)

Feb 9
[Class cancelled – snow day]

Feb 14
Managing bank runs and panics: liquidity regulation (I) – Miller
  • Narayanan et al, Chapter 4.
  • Carnell, Macey & Miller (204-238)

Feb 16
Managing bank runs and panics: liquidity regulation (II) – Miller

Feb 23
Emergence of blockchains and digital currencies – Yermack
  • Guest speaker: W. Scott Stornetta, http://nakamotoinstitute.org/authors/w-scott-stornetta/
  • Haber and Stornetta, 1991, “How to Time-Stamp a Digital Document.”
  • Narayanan et al, Chapter 7

Feb 28
Managing bank runs and panics: capital regulation – Miller
  • Carnell, Macey & Miller (238-249; 260-266)

Mar 2
How do blockchains work? (I) – Yermack
  • Narayanan et al, Chapter 5

Mar 7
How do blockchains work? (II) – Yermack
  • Yermack, “Corporate Governance and Blockchains” (2017)

Mar 9
The New York bitcoin license – Miller
  • Guest speakers: Ryne V. Miller, https://www.sullcrom.com/lawyers/RyneV-Miller, and Daniel Alter, former NYDFS general counsel and former general counsel of chief compliance officer of itBit.
  • NYDFS, Bitcoin License Regulation

Mar 21
Cryptocurrencies: a better form of payment? – Miller
Mar 23 Cryptocurrency custody, security, and dispute resolution – Yermack
     • Narayanan et al, Chapter 4

Mar 28 Money laundering, KYC, and suspicious activities – Miller
     • Goldman, Sachs pp 71-77

Mar 30 Blockchains in the capital markets – Yermack

Apr 4 Taxation of digital assets – Miller
     Guest speaker: Joshua Blank, NYU School of Law

Apr 6 Smart contracts - Yermack
     • Szabo, “Formalizing and Securing Relationships on Public Networks”:
     • Chamber of Digital Commerce, “Smart Contracts – 12 Use Cases for Business”

Apr 11 Criminal activity and digital currency – Miller

Apr 13 Bitcoin and digital currencies as investments – Yermack
     Guest speaker: Barry Silbert, http://dcg.co/who-we-are/

Apr 18 Ethereum and The DAO – Yermack
     Guest speaker: Drew Hinkes, bergersingerman.com/people/andrew-m-hinkes
     • Hinkes, “A Legal Analysis of the DAO Exploit and Possible Investor Rights,” Bitcoin Magazine, July 21, 2016:


Apr 20 Altcoins: Z-cash, Aauroracoin, Ripple, etc. – Yermack
     • Narayanan et al, Chapters 8, 10

Apr 25 Blockchain uses for auditing, insurance, logistics, and other applications – Yermack
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<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
<th>Guest Speaker</th>
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<tr>
<td>May 4</td>
<td>Capstone class - Miller</td>
<td><em>Guest speaker:</em> Patrick Murck, <a href="http://cooley.com/people/patrick-murck">cooley.com/people/patrick-murck</a></td>
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