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Corporations, Elections & Political Subdivisions Committee
Wyoming Legislature
3001 East Pershing Boulevard
Cheyenne, WY 82001

Dear Committee Members:

I write in support of proposed bill 19LSO-0175: Commercial Filing System for the Secretary of State (SoS). The situation appears clear-cut—either Wyoming enacts this bill and the SoS moves forward, or the SoS falls behind its competitors. This bill requires a well-timed and self-funded technology upgrade at the SoS, which would enable Wyoming to attract fees from new services and markets that could materially contribute to Wyoming’s revenues and secure its budget situation for decades. Wyoming’s main competitors for business registrations, Delaware and Nevada, are taking steps to implement blockchain/smart contracts for certain registrations, but Wyoming is not. Consequently, Wyoming is at risk of losing ground to them as its existing technology gap widens further.

1. Benefits to Wyoming from Enacting 19LSO-0175

Wyoming’s SoS office has the opportunity to become a material source of new revenues if it integrates with a blockchain for business filings, and to leapfrog Delaware and Nevada.

Delaware has perfected the art of attracting revenues from outside its state. Business registrants pay a surprisingly high 37% of Delaware’s budget revenues annually (or more than \$1.5 billion¹)—mostly from businesses that are not located in Delaware. By contrast, in Wyoming that percentage is low. Wyoming could challenge Delaware’s lead. Delaware is vulnerable because it charges fees and taxes that are already high, it recently raised them again,² and it has a history of aggressively pursuing registrants for their unclaimed property³—for which it has generated ill will among its business registrants.⁴

Wyoming has a tremendously strong foundation from which to make a run at Delaware and Nevada’s leadership in this market. Wyoming has great building blocks—it created the limited liability company in 1977, has maintained strong privacy laws for LLC registrants, and has enacted trail-blazing blockchain legislation. Among the top three, Wyoming is the only state that charges neither a franchise tax nor a gross-receipts tax—Delaware charges both, Nevada enacted a gross-receipts tax in 2016, and Delaware separately also assesses a corporate tax.

¹ <https://budget.delaware.gov/budget/fy2017/documents/operating/vol1/financial-summary.pdf>. Here is the breakdown: 26% (or \$1.13 billion) comes from business registrations and 11% (or nearly \$500 million) comes from unclaimed property.

² <https://www.delawareinc.com/blog/changes-to-delawares-franchise-tax-fees/>

³ <http://www2.philly.com/philly/blogs/inq-phillydeals/delawares-long-fight-to-collect-the-worlds-orphan-cash-20180115.html>

⁴ <https://www.delawareonline.com/story/news/2018/02/23/federal-rulings-preserve-delawares-unclaimed-property-practice-now/362480002/>

When 19LSO-0175 is enacted and implemented, I believe Wyoming's SoS will collect significantly more revenue. It will come from four sources:

- (1) attracting registrants away from Delaware and Nevada,
- (2) adding new services for which it charges new fees (such as automating UCC-1 renewals),
- (3) charging higher fees for obtaining validation on a blockchain from the SoS, and
- (4) expanding into new markets in which businesses are willing to pay for an immutable time-stamp issued by a government entity, such as diamonds, fine art and collectibles.

2. Wyoming Is at Risk of Losing Further Ground

Despite its tremendously strong foundation, Wyoming has two disadvantages that hold it back relative to Delaware and Nevada as a premier destination for business registrations, and the consequent potential for material revenue: (a) inferior SoS technology and (b) no business court.

a. Inferior SoS Technology

Wyoming's SoS is already behind technologically relative to those of Delaware and Nevada. Wyoming does not offer electronic filing service for all its filings, which means a substantial amount of filing activity that is offered electronically by these competing states is still manual in Wyoming—including amendments to registrations, filing UCC-1 financing statements with collateral lists attached and registering statutory trusts, to name a few. By contrast, for many years Delaware has offered an API (application programming interface) that enables service providers to build their own software to interact directly with the SoS's back-end database—something Wyoming's SoS does not offer. Delaware's technology advantages have, for example, attracted programs to Delaware such as Atlas,⁵ a platform of fintech powerhouse Stripe, which automates the online formation of new business entities for Stripe's customers.

Moreover, both Delaware and Nevada are taking affirmative steps to implement blockchain technology for SoS registrations, while Wyoming's SoS has taken no such steps to date.

Delaware began its blockchain efforts in 2015 and is moving slowly, but Nevada began in August 2018 and is moving quickly.

Delaware, after a pause due to the change of administrations, hired IBM in 2017 to study whether the benefits of blockchain outweighed the costs, and IBM validated that indeed they did. IBM's study is available online.⁶ Delaware then began pilot projects for UCC filings and stock ledgers, and it contracted with IBM for \$738,000 to do them.⁷ The pilots are nearly complete.

Nevada is studying an office-wide upgrade involving blockchain-based smart contracts. Its SoS already offers a free online service to automate LLC creation, called SilverFlume Digital Operating Agreement,⁸ and in August 2018 Nevada issued an RFI to upgrade SilverFlume by allowing “vendors to provide legal smart contract, computational law, and/or other digital

⁵ <https://stripe.com/atlas>

⁶ https://drive.google.com/viewerng/viewer?url=http://php.delawareonline.com/news/assets/2018/04/Delaware_Executive_Summary.pdf

⁷ <https://www.ccn.com/delaware-awards-ibm-738000-contract-to-develop-prototype-blockchain-filing-system/>

⁸ <https://www.nvsilverflume.gov/digitaloa/home>

solutions...” Critically, the RFI also aims “to provide a working model for solutions and standards that may be applied across additional NV SoS product lines.”⁹ Responses to the RFI are due November 19.

Wyoming’s SoS is taking no such steps toward blockchain. This is surprising, not only in light of the competitive landscape but also because two teams won prizes at UW’s WyoHackathon in September for writing software to upgrade the Wyoming SoS platform using blockchain. The open-source code of both teams is freely available at wyohackathon.io.

b. No Business Court

Wyoming has no court of jurisdiction for business entities, unlike Delaware’s Court of Chancery and Nevada’s Business Court. Many attorneys have privately told me this is the main reason why they continue to recommend that their start-up clients register in Delaware or Nevada instead of Wyoming. I wholeheartedly support ENDOW’s recommendation to form a business court in Wyoming and believe it would be a profit center (for reference, Delaware spends 2.3% of total appropriations on its judiciary but collects 37.0% of its revenues from business registrants¹⁰). Yet, if I were forced to choose between the court and the technology upgrade, I would choose the latter for reasons I’ll explain next.

3. Is Blockchain Really Necessary?

Yes, blockchain is really necessary for the SoS, for two reasons: (1) on a blockchain, there’s no break in the chain of digital information, and (2) the cryptographic signature of the SoS on a blockchain cannot be fraudulently reproduced. Existing database technologies cannot achieve either of these two attributes. Consequently, blockchains offer the potential for businesses to automate processes that are manual, slow and error-prone, and that’s why businesses are willing to pay premium prices for SoS services that incorporate them—ultimately, it’s about saving money and reducing risk for businesses, and creating a perfect audit trail. Not only did a group of prominent corporate attorneys support this conclusion,¹¹ but the IBM study mentioned above corroborated it.

In closing, I’ll share an insightful statement made by Joseph Lubin, billionaire co-founder of the Ethereum blockchain, to the Laramie *Boomerang* while he attended WyoHackathon: “There’s no reason that the next Google can’t be built” here.¹² I agree. To achieve this, Wyoming needs a technology-forward SoS platform, which this bill enables. I urge support of 19LSO-0175.

Sincerely,



Caitlin Long
Co-Founder, Wyoming Blockchain Coalition (UW ’90)

⁹ <https://nevadaepro.com/bso/external/bidDetail.sdo?bidId=04SOS-S333&parentUrl=activeBids>

¹⁰ <https://budget.delaware.gov/budget/fy2017/documents/operating/vol1/financial-summary.pdf>

¹¹ <https://www.blockchainconsulting.net/open-letter-to-delaware/>

¹² https://m.trib.com/news/state-and-regional/tech-companies-promise-wyoming-investment-at-hackathon/article_17dd1507-3e14-5ea7-b4d5-2d1fb761bb03.html