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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

December 4, 2025

Kaitlin Asrow  
Acting Superintendent  
Department of Financial Services  
1 State Street  
New York, NY 10004

Re: Virtual Currency Licensing  
Report 2025-F-4

Dear Acting Superintendent Asrow:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Department of Financial Services (DFS) to implement the recommendations contained in our initial audit report, *Virtual Currency Licensing* (Report [2022-S-18](#)).

**Background, Scope, and Objective**

DFS is New York State's financial services regulator, and its head, the Superintendent of Financial Services (Superintendent), is responsible for ensuring the safety and soundness of New York's financial services industry and promoting the reduction and elimination of fraud, abuse, and unethical conduct with respect to financial institutions licensed to operate in the State. The Superintendent has the authority to conduct investigations, bring enforcement proceedings, levy monetary penalties, and revoke the licenses of entities that violate relevant laws and regulations.

DFS supervises and regulates the activities of over 3,200 financial institutions with nearly \$10 trillion in assets as of December 31, 2024, including 22 virtual currency licensees with assets totaling more than \$404 billion. In June 2015, DFS issued New York Codes, Rules and Regulations (NYCCR) Title 23, Part 200 – Virtual Currency Regulation (Part 200). According to Part 200, virtual currency is “any type of digital unit that is used as a medium of exchange or a form of digitally stored value. Virtual currency shall be broadly construed to include digital units of exchange that have a centralized repository or administrator; are decentralized and have no centralized repository or administrator; or may be created or obtained by computing or manufacturing effort.”

Part 200 requires businesses to obtain a license (BitLicense) to engage in virtual currency business activities in New York State, except those chartered under New York Banking Law or using virtual currency for investing purposes. Applications must be submitted to and approved by DFS. DFS' Virtual Currency Unit (VCU) includes the Application, Supervision, and Examination teams, who are responsible for overseeing applications and reviewing and monitoring BitLicensees.

The BitLicense application process consists of seven steps:

- Intake Following Pre-Application Meeting
- Checklist Review
- Application Assignment
- Substantive Review
- Specialty Reviews
- Ready for Committee
- Post-Committee Approval Process

This process falls under the purview of the Applications team. The Applications team utilizes financial, Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and cybersecurity subject matter experts (SMEs) to assist with the Specialty Reviews. DFS reviews BitLicense applications in terms of various statutory and regulatory perspectives, including the legislative compliance of the applicant's BSA/AML program, financial strength, business model, cybersecurity policies and procedures, and major shareholders' and officers' background. The Applications Committee, which is made up of DFS officials, recommends final approval or disapproval, which is granted by the Superintendent.

Upon BitLicense approval, DFS creates a detailed Supervisory Agreement that sets conditions and requirements tailored to the specific risks presented by the applicant's business model. Part 200 requires each virtual currency license holder (BitLicensee) to submit quarterly and annual financial statements to DFS, along with other annual written assessments regarding different aspects of the security and integrity of its business and electronic systems.

The Supervision team is responsible for reviewing quarterly and annual financial statements and other required reports, confirming whether the licensee is compliant with legislation and the Supervisory Agreement, and ensuring overall that BitLicensees are engaging in sound and safe business practices.

Part 200 also requires that BitLicensees permit DFS to conduct an examination at least every 2 calendar years to determine the BitLicensee's financial condition, the safety and soundness of the conduct of its business, its management's policies, and its compliance with laws, rules, and regulations. The Examination team is responsible for scheduling and conducting safety and soundness examinations.

The objective of our initial audit, issued on January 2, 2024, was to determine whether DFS provided adequate oversight of the applications for, and supervision and examination of, virtual currency licensees to ensure compliance with Part 200. The audit covered the period from July 2018 through July 2023. The audit found that DFS was not adequately performing its oversight responsibilities related to the application for and supervision of BitLicenses. Specifically, DFS did not ensure compliance with the Department of Taxation and Finance's (DTF) tax obligations and might use outdated anti-money laundering risk assessments to approve licenses. Additionally, we found that BitLicensees were not in compliance with DFS' cybersecurity regulations, although in some cases they self-certified that they were. We also found, on average, a 3-year gap between biennial examinations to determine licensees' financial

condition and the safety and soundness of their business, and DFS could not demonstrate it tracked and followed up on issues discovered during the examinations that were completed.

The objective of this follow-up was to assess the extent of implementation, as of July 2025, of the six recommendations included in our initial audit report.

### **Summary Conclusions and Status of Audit Recommendations**

DFS officials made some progress in addressing the issues we identified in our initial audit report; however, more work needs to be done. Of the initial report's six audit recommendations, three were implemented and three were partially implemented.

### **Follow-Up Observations**

#### **Recommendation 1**

*Continue to take steps to ensure that all BitLicense applications are complete and comply with Part 200 requirements, any issues are addressed prior to approval, and decisions and actions taken on applications are documented.*

Status – Partially Implemented

Agency Action – DFS documents the decisions and actions taken on applications through the Applications Committee's meeting minutes. We judgmentally selected two BitLicensees' applications to review. We note that DFS implemented a process to follow up on any significant risk or open issues after the issuance of BitLicenses and documented these issues in a follow-up table. According to the follow-up table, most of the issues were resolved or not applicable. We found one issue with a sampled BitLicensee that was being followed up on by DFS during routine supervisory meetings. However, DFS could not provide any routine supervisory meeting agendas and/or memos, although the Supervision Manual requires that the point-of-contact lead be responsible for documenting each meeting.

In addition, DFS revised the requirement of verifying the applicants' tax obligations in the Application Manual. A Memorandum of Understanding (MOU), which established the verification process between DTF and DFS, was signed and executed on August 20, 2024. This MOU allows DFS access to certain tax information of the applicant to ensure its compliance with New York State tax obligations. However, neither of the two sampled BitLicensee applications contained the verification from DTF.

#### **Recommendation 2**

*Develop formal, written guidance for Specialty Reviews to ensure comprehensive and consistent application reviews.*

Status – Implemented

Agency Action – DFS developed several SME templates needed for application reviews, such as Financial Application Review, Cybersecurity Application Review, and AML Specialty Review. However, we found that DFS did not utilize the Financial and Cybersecurity Review templates during the application process for one of the two sampled BitLicensees' applications. DFS should ensure these templates are used.

### **Recommendation 3**

*Take steps to ensure BitLicensees provide all information as required by Part 200 and the Supervisory Agreements.*

Status – Partially Implemented

Agency Action – DFS developed Periodic Reporting Procedures to ensure BitLicensees adhere to the reporting requirements of Part 200 and the Supervisory Agreements. More specifically, the procedures detail periodic reporting requirements, the form and manner in which reports should be submitted, and the process after the reports are submitted. However, while the Periodic Reporting Procedures require monthly reporting within 15 days of the end of the month, according to the Supervisory Agreement, reports must be submitted within 20 calendar days of month's end. Under the new procedures, DFS received most of the required reports. However, DFS could not provide the required 2023 Independent Cybersecurity Report for a sampled BitLicensee approved in January 2023, and stated the BitLicensee's first independent cybersecurity audit (covering 2024) is expected to be conducted in 2025. Furthermore, DFS did not provide the 2024 audited financial statements for one sampled BitLicensee within 90 days of the firm's fiscal year end, as required. DFS officials indicated that this BitLicensee requested an extension; however, as of July 2025, the audited financial statements were still not available. It is imperative that DFS obtains annual audited financial statements timely.

### **Recommendation 4**

*Continue to develop and implement procedures and tools to collect and analyze required information to ensure the safety and soundness of BitLicensee operations.*

Status – Partially Implemented

Agency Action – DFS developed and implemented several procedures and tools to collect and analyze required information, including a Supervision Manual, Annual and Quarterly Report Checklists, and Capital Oversight Procedures, which generally describe VCU's supervisory processes and support monitoring of virtual currency entities including BitLicensees. However, we found discrepancies between the procedures and the Part 200 requirements:

#### **Annual Reporting**

- DFS collected the annual Chief Information Security Officer (CISO) reports during the examination; however, they were not collected timely for each fiscal year end, as required by Part 200. Additionally, no completion date was indicated in the annual CISO report for the sample of BitLicensees we reviewed. For one of the sampled BitLicensees, the CISO reports for 2023 and 2024 were not collected by DFS until Quarter 4 of 2025. DFS stated that it does not mandate virtual currency entities to submit a less rigorous CISO report than NYCRR Part 500 – Cybersecurity Requirements for Financial Services Companies (Part 500) and the Supervisory Agreement, thus eliminating the need for proactive annual submissions. We found this statement contradicted the Part 200.16f requirement. Therefore, we have no assurance that annual CISO reports were completed and submitted to DFS in a timely manner.

- For one of the sampled BitLicensees, we found the audited financial statements were not accompanied by an opinion and an attestation by an independent certified public accountant regarding the effectiveness of the BitLicensee's internal control structure, as required by Part 200. Although an Independent AML Testing Report was provided, it evaluated only the AML program and not the overall internal controls.

#### Quarterly Reporting

- The Quarterly Financials Checklist does not list several regulatory requirements, including a statement of comprehensive income, a statement of net liquid assets, a statement demonstrating compliance with any financial requirements established under Part 200, financial projections and strategic business plans, and a report of permissible investments by the licensees, as permitted under Part 200. Therefore, DFS has not collected and analyzed all required information.
- For one sampled BitLicensee's 2024 quarterly report, DFS officials indicated the cash flow statement and list of all off-balance sheet items were incorporated in the 2023 audited financial statements. It is inappropriate to use a prior year's financial statement to fulfill the quarterly reporting requirements.
- No checklist was provided for Quarter 3 and Quarter 4 of 2023 for one sampled BitLicensee.

#### Monthly Reporting

- As required by the Supervisory Agreement, BitLicensees shall submit monthly reports, including capital calculations. DFS developed and implemented tools to review the BitLicensee's monthly capital calculation. However, we found that the January and February 2023 monthly reports were missing. According to DFS, the reports for January and February 2023 pre-date the formal capital tracking process, which was implemented effective March 2023. Therefore, we have no assurance that DFS adequately ensured the compliance of BitLicensees' monthly reporting requirement before March 2023.

### **Recommendation 5**

*Continue to develop and implement policies and procedures to ensure safety and soundness examinations are conducted in a timely manner.*

Status – Implemented

Agency Action – DFS developed the BitLicense Examination Manual in June 2023, along with the Financial Analysis Template, to assist with the examinations. DFS made improvements in conducting the safety and soundness examinations in a timely manner, as most BitLicensees received an examination at least every 2 years with a few exceptions. We reviewed the 2025 Examination Roster (which included 25 BitLicensees) and identified issues with only three examinations.

### **Recommendation 6**

*Establish formal policies and procedures for the examination follow-up process to ensure issues are addressed promptly.*

Status – Implemented

Agency Action – DFS developed a detailed BitLicense Exam Findings Tracking Procedure, which outlines the steps DFS officials should take to review and monitor the remedial efforts by the BitLicensee prior to the next examination. DFS officials use a spreadsheet, internally known as the MRA Status Tracker, to track the progress of all matters requiring immediate attention and matters requiring attention. We reviewed two sampled examinations and found the tracker to be informative and updated timely.

Major contributors to this report were Jiaying Li and Misty Baldeo.

DFS officials are requested, but not required, to provide information about any actions planned to address the unresolved issues discussed in this follow-up within 30 days of the report's issuance. We thank the management and staff of DFS for the courtesies and cooperation extended to our auditors during this follow-up.

Sincerely,

Daniel P. Raczynski  
Audit Manager

cc: Bruce Rollins, Department of Financial Services