MEMORANDUM

TO: The Commission

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Subject: AO 2018-13 (OsiaNetwork LLC) Draft A

Attached is a proposed draft of the subject advisory opinion.

Members of the public may submit written comments on the draft advisory opinion. We are making this draft available for comment until 9:00 am (Eastern Time) on Thursday, November 15, 2018.

Members of the public may also attend the Commission meeting at which the draft will be considered. The advisory opinion requestor may appear before the Commission at this meeting to answer questions.

For more information about how to submit comments or attend the Commission meeting, go to https://www.fec.gov/legal-resources/advisory-opinions-process/

Attachment
Dear Messrs. Sack and Hunt:

We are responding to your advisory opinion request on behalf of OsiaNetwork LLC (“OsiaNetwork”) concerning the application of the Federal Election Campaign Act, 52 U.S.C. §§ 30101-45 (the “Act”), and Commission regulations to OsiaNetwork’s proposal to provide services to political committees to enable individuals to use the processing power of their internet-enabled devices to mine cryptocurrencies to benefit the political committees. The Commission concludes that although the proposal is permissible under the Act and Commission regulations, it does not fall within the volunteer internet activities exception, and would result in contributions from both the individuals and OsiaNetwork to the participating political committees.

**Background**

The facts presented in this advisory opinion are based on your letter received on September 10, 2018, and your e-mail received on September 20, 2018.

OsiaNetwork is a Delaware limited liability company.\(^1\) Advisory Opinion Request at AOR001. OsiaNetwork proposes to provide services to political committees that would enable individuals to pool the processing power of their internet enabled devices to mine cryptocurrencies, with the political committees receiving the mining rewards. AOR004.

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\(^1\) OsiaNetwork will not be treated as a corporation for tax purposes. AOR014.
The process of mining cryptocurrency involves using large amounts of computer
processing power to solve complex calculations “using cryptographic hash functions.”

The completion of these calculations results in the mining of a “block,” which allows
transactions between users to be authenticated and generates a new cryptocurrency unit for the
miner as a reward for creating the block. The return for authenticating transactions,
cryptocurrency miners are also paid a transaction fee, the size of which often determines the
priority with which a transaction will be completed. Solving the complicated
mathematical problems to create blocks requires enormous amounts of computing power, and
“can take centuries to generate a valid ‘block’” by a single miner. Therefore,
cryptocurrency “miners often join forces in so-called ‘pools’ to work together and share the
reward.”

Under OsiaNetwork’s proposal, “[i]f a federal political committee would like to allow
their individual supporters to volunteer the processing power of their internet enabled devices,
OsiaNetwork will provide the tools necessary to create a webpage on that committee’s website
that provides the methodology to pool the processing power of these volunteers’ internet enabled
devices.” Once a political committee has set up such a webpage, an individual who
wants to participate in a mining pool would visit the page and allow the political committee to
use the processing power of the individual’s device by (1) accepting the terms of service,
(2) designating the percentage of their device’s processing power they wish to use for the

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2 A more detailed explanation of cryptocurrency mining can be found at Francois R. Velde, *Bitcoin: A

3 Quoting Nat Drake, *The best mining pools of 2018 for cryptocurrency*, TechRadar, Aug. 23, 2018,
cryptocurrency mining pool, and (3) keeping that webpage open for as long as they would like to continue using their device’s processing power as part of the cryptocurrency mining pool. AOR005.

Individuals will be able to use their computer processing power for more than one political committee at a time, as long as each of the political committees is a client of OsiaNetwork. Id. OsiaNetwork’s platform will be used to pool the processing power from individuals supporting multiple political committees as well as non-political non-profit clients of OsiaNetwork. AOR006. OsiaNetwork will receive the mining rewards generated by the pooled processing power of all individuals’ devices; individuals who allow their devices’ processing power to be pooled will not have an ownership interest in or any rights to the mining rewards generated. Id. OsiaNetwork will maintain a separate account for each of its clients, tracking the amount of cryptocurrency rewards generated by individuals providing their computer processing power to that client. Id. OsiaNetwork will allocate the mining rewards it receives among its clients “proportionately to the number of hashes that each committee’s volunteers generate in order to solve the block that generates the mining reward.” Id. OsiaNetwork will then subtract its processing fee and transfer to each political committee funds in United States currency equivalent to the cryptocurrency value allocated to that committee. Id.

A political committee that participates in OsiaNetwork’s proposal will contract with OsiaNetwork for the provision of the necessary infrastructure and the receipt of mining rewards, and may enter into a separate contract with the individuals who wish to allow their devices’ processing power to be used for the benefit of that committee; the individuals will not have a direct contractual relationship with OsiaNetwork. AOR007. The political committee will enter
into terms of service with OsiaNetwork pertaining to their business relationship,\textsuperscript{4} and

OsiaNetwork will provide sample terms of service that the political committee may use on its
webpage to govern the relationship between the committee and the individuals who participate in
the mining pool to benefit the committee.\textsuperscript{5} \textit{Id.}

Under the contractual arrangement between OsiaNetwork and its political committee
clients, OsiaNetwork will charge a processing fee for its service that will be a percentage of the
mining rewards generated, a percentage that will remain the same regardless of how much
cryptocurrency is mined. AOR008. The fee will cover the costs of the services provided by
OsiaNetwork to the political committee as well as a reasonable profit. \textit{Id.} The services provided
by OsiaNetwork to a participating political committee will include the infrastructure necessary
for the political committee to enable individuals to allow their devices’ processing power to be
used to mine cryptocurrency, running the servers necessary to administer the mining pool, and
converting mined cryptocurrency into United States currency. \textit{Id.} The infrastructure provided
by OsiaNetwork will include computing resources, servers, webpage design, and connectivity of
the various components required for the platform to function. AOR009. The infrastructure will

\textsuperscript{4} Terms of service between OsiaNetwork and political committees will include the following provisions:
(1) OsiaNetwork will be pooling the resources of such political committee’s individual volunteers together with the
individual volunteers of other OsiaNetwork clients; (2) OsiaNetwork will not be required to disclose to a political
committee the names of its other clients; (3) OsiaNetwork will subtract its fee(s) before transferring funds;
(4) OsiaNetwork will not guarantee the uptime of its services; (5) OsiaNetwork will not be not liable for any
damages caused directly or indirectly to the committee’s computing equipment or its individual volunteers’
computing equipment as a result of using OsiaNetwork’s services. AOR007.

\textsuperscript{5} Sample terms of service that political committees may use include the following provisions: (1) A
volunteer must be acting as an individual and not on behalf of a corporation; (2) A volunteer must not use this
platform for any illegal purposes; (3) A volunteer must not attempt to “hack” or reverse engineer any programs
contained on the webpage so designated by the political committee; (4) The political committee will not be
responsible for any damage caused directly or indirectly to an individual’s internet enabled device as a result of
engaging in this volunteer activity; (5) An individual will not receive any mining rewards in exchange for engaging
in this volunteer activity. AOR008.
be provided to the political committee only for the duration of its relationship with OsiaNetwork, and will not be of use to the political committee other than to facilitate its participation in OsiaNetwork’s platform. *Id.*

OsiaNetwork also anticipates providing similar services to non-profit entities, whereby individuals will be able to pool their devices’ processing power to mine cryptocurrency for the benefit of such organizations. *Id.* OsiaNetwork does not anticipate offering such services to for-profit entities. *Id.*

**Questions Presented**

1. **Is it permissible under the Act for individuals to volunteer the processing power of their internet-enabled devices, through services provided by OsiaNetwork in the manner described in this request, in order to mine cryptocurrencies in support of a federal political committee?**

2. **Under the Act, who may support a federal political committee by volunteering the processing power of their internet-enabled device through services provided by OsiaNetwork in the manner described in this request?**

3. **Does OsiaNetwork and/or a federal political committee contracting with OsiaNetwork, have any reporting requirements under the Act with respect to the funds raised as a result of supporters of federal political committees volunteering the processing power of internet-enabled devices?**

4. **Are there any restrictions on how OsiaNetwork may sell cryptocurrency mined through the “pooling” of processing power of federal political committees’ volunteers’ internet-enabled devices?**
5. May OsiaNetwork transfer funds in United States currency equivalent to the value of the cryptocurrency mined through the “pooling” of the processing power of the federal political committees’ individual volunteers’ internet-enabled devices to such federal political committees without it being considered a contribution from OsiaNetwork and without it being subject to any contribution limits under the Act?

Legal Analysis and Conclusions

1. Is it permissible under the Act for individuals to volunteer the processing power of their internet-enabled devices, through services provided by OsiaNetwork in the manner described in this request, in order to mine cryptocurrencies in support of a federal political committee?

5. May OsiaNetwork transfer funds in United States currency equivalent to the value of the cryptocurrency mined through the “pooling” of the processing power of the federal political committees’ individual volunteers’ internet-enabled devices to such federal political committees without it being considered a contribution from OsiaNetwork and without it being subject to any contribution limits under the Act?

The Commission concludes that although the proposed cryptocurrency mining pool as described in the request is itself permissible under the Act and Commission regulations, the activities of the individuals do not fall within the volunteer internet activities exception, and would therefore result in contributions from them and from OsiaNetwork to the participating political committees.

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6 The Commission is addressing the questions in a different order than they were presented in the request, due to overlap in the analysis of questions 1 and 5.
The Act defines a “contribution” as “any gift, subscription, loan, advance, or deposit of money or anything of value made by any person for the purpose of influencing any election for Federal office.” 52 U.S.C. § 30101(8)(A)(i); see also 11 C.F.R. § 100.52(a). For purposes of this definition, “anything of value” includes all in-kind contributions and, unless specifically exempted from the definition of contribution, “the provision of any goods or services without charge or at a charge that is less than the usual and normal charge for such goods or services is a contribution.” 11 C.F.R. § 100.52(d)(1). “Usual and normal charge” for any services means the charge for those services “at a commercially reasonable rate prevailing at the time the services were rendered.” 11 C.F.R. § 100.52(d)(2). In this instance, the individuals who participate in the cryptocurrency mining pool will be providing something of value to the political committees: the processing power of their computers that will, pooled together, yield mined cryptocurrency and mining rewards.

Commission regulations exempt certain activities from the definition of a “contribution.” One such exemption provides that, if an individual or a group of individuals engages in uncompensated internet activities for the purpose of influencing a federal election, neither the uncompensated personal services provided by the individual nor, generally speaking, the individual’s use of equipment or services for the uncompensated activity will be a “contribution” by that individual or group of individuals. 11 C.F.R. § 100.94; see also 52 U.S.C. § 30101(8)(B)(i) (excluding “the value of services provided without compensation by any individual who volunteers on behalf of a candidate or political committee” from the definition of
“contribution”); 11 C.F.R. § 100.74 (same). The regulation defines “Internet activities” as including, but not limited to, “sending or forwarding electronic messages; providing a hyperlink or other direct access to another person’s Web site; blogging; creating, maintaining, or hosting a Web site; paying a nominal fee for the use of another person’s Web site; and any other form of communication distributed over the Internet.” 11 C.F.R. § 100.94(b). The regulation defines “equipment and services” as including, but not limited to, “computers, software, Internet domain names, Internet Service Providers (ISP), and any other technology that is used to provide access to or use of the Internet.” 11 C.F.R. § 100.94(c).

OsiaNetwork’s proposal is not one of the types of activities or services explicitly mentioned in either the regulation or the Commission’s explanation of the regulation upon its adoption. See Internet Communications, 71 Fed. Reg. 18589, 18603 (Apr. 12, 2006).

Recognizing that it could not anticipate every means of using the internet that might appropriately be covered by the volunteer internet activities exemption, the Commission adopted the exemption with the intention that its definition of “internet activities” would “cover technology that has not yet been developed.” Id. at 18605. However, the Commission did not intend the definition to be so broad as to encompass every activity that might make incidental use of the internet, and thus the definition of “Internet activities” includes the enumerated forms of activity “and any other form of communication distributed over the Internet.” 11 C.F.R. § 100.94(b) (emphasis added). Each of the activities listed in the definition includes a communicative element, whether by directly expressing a message (e.g., sending an email or

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7 An analogous provision exempts volunteer internet activity from the definition of “expenditure.” 11 C.F.R. § 100.154.
blogging) or amplifying another person’s message (e.g., forwarding an email, providing a
hyperlink to another person’s website, or creating a website). See also Advisory Opinion 2016-
10 (Parker) (concluding that proposed email solicitations qualify for volunteer internet activities
exemption); Advisory Opinion 2011-01 (Utah Bankers Association) (concluding that sending or
forwarding email solicitations qualifies for volunteer internet activities exemption); Advisory
Opinion 2008-10 (VoterVoter.com) (concluding that posting advertisements on website qualifies
for volunteer internet activities exemption). Individuals’ participation in cryptocurrency mining
pools as described in OsiaNetwork’s proposal would not involve any expressive activity or
distribution of any other person’s communication, only the passive provision of processing
power, and would not constitute a “form of communication distributed over the Internet” as
encompassed by the definition of “Internet activities.”

The exemption does provide that an individual’s “use of equipment and services for
uncompensated Internet activities” is not a contribution, 11 C.F.R. § 100.94(a)(2), but this part of
the exemption extends only to the use of equipment “for . . . Internet activities.” Because
participation in OsiaNetwork’s cryptocurrency mining pool does not constitute an “internet
activity” as defined in the regulation due to the lack of a communicative element, the use of an
individual’s computer and internet access to participate in the mining pool would not fall within
the exemption regardless of the fact that computers and means of internet access are included in
the definition of “equipment and services.” Accordingly, the Commission concludes that the
proposed cryptocurrency mining pool does not fall within the volunteer internet activities
exception to the definition of a contribution. Because an individual will be providing something
of value to a political committee — the processing power of each individual’s computer used for
the cryptocurrency mining pool — that does not fall within an exemption to the definition of a
collection, the individual will be making a contribution to the political committee, equivalent
to the usual and normal charge for the computing services used.

The request also asks whether the proposed activity will result in contributions from
OsiaNetwork to the political committees. The Commission has previously considered similarly
structured business transactions whereby a political committee raises funds via its supporters’
activities, generating income through ongoing commercial ventures administered by a third-party
vendor. See, e.g., Advisory Opinion 1992-40 (Leading Edge Communications); Advisory
Opinion 1988-12 (Empire of America Federal Savings Bank); Advisory Opinion 2008-18 (Mid-
Atlantic Benefits). In each of these instances, the Commission has concluded that these
fundraising activities result in contributions from the vendor to the political committee.

For example, in Advisory Opinion 1988-12 (Empire of America Federal Savings Bank),
the Commission considered an affinity credit card arrangement, under which a federally
chartered bank proposed to enter into an agreement with political committees to use the
committees’ names and goodwill to market credit card offers to the committees’ supporters, and
in return the political committees would be paid commissions based on a percentage of the
amount generated by the credit card offers. The Commission concluded that the proposed
commission payments would result in contributions from the bank to the political committees,
and because the bank was a federally chartered bank, it was prohibited from making
contributions. Advisory Opinion 1988-12 (Empire of America Federal Savings Bank) at 3.

The Commission came to similar conclusions in Advisory Opinion 1992-40 (Leading
Edge Communications) and Advisory Opinion 2008-18 (Mid-Atlantic Benefits), where the
Commission considered proposals for a telecommunications marketing company and a
prescription drug discount company, respectively, to sell discounted products to political
committees’ supporters, and send a percentage of the supporters’ payments to the political
committees. The Commission concluded that the payments made by the companies under those
proposals to any political committee would be considered impermissible corporate contributions
from the companies to the political committees. Advisory Opinion 1992-40 (Leading Edge
Communications) at 2; see also Advisory Opinion 2008-18 (Mid-Atlantic Benefits) at 5. The
Commission further explained that such transactions result in contributions from the companies
because the fees paid to the political committees are from the company’s funds rather than from
funds belonging to the individuals who are purchasing the discounted products. Advisory
Opinion 2008-18 (Mid-Atlantic Benefits) at 4-5.

By contrast, the Commission has also considered proposals that did not result in
contributions by the participating companies. For example, in Advisory Opinion 2010-21
(ReCellular), a corporation that purchased used cell phones proposed to allow the sellers to
contribute their sale proceeds to political committees. The Commission noted that, as in the
advisory opinions cited above, “[g]enerally, affinity and similar programs in which a corporation
transmits to a political committee a portion of the revenues that the corporation charges and
collects will result in a prohibited corporate contribution under the Act and Commission
regulations. Thus all contributions generated through these programs must be made by
individuals from their own funds and not by the corporate service provider.” Advisory Opinion
2010-21 (ReCellular) at 5 (citation omitted). The Commission went on to explain that “[i]n
evaluating affinity and affinity-like programs, the Commission considers two factors: 1) whether
the revenue or rebate is offered to individual customers or users in the ordinary course of business; and 2) whether the revenue is the property of the individual customer who — rather than the corporate affinity partner — controls the disposition of the revenue.” *Id.* (citation omitted). The Commission concluded that, unlike the advisory opinions cited above, ReCellular’s proposal would not result in a contribution from ReCellular, because “the funds at issue . . . will be offered to consumers in the ordinary course of ReCellular’s business” and “the proceeds of each phone sale are the property of the consumer.” *Id.* at 6. Thus the Commission has distinguished arrangements like ReCellular’s, where the participating individual was entitled to and controlled the disposition of the funds, and arrangements like those in Advisory Opinion 2008-18 (Mid-Atlantic Benefits), Advisory Opinion 1992-40 (Leading Edge Communications), and Advisory Opinion 1988-12 (Empire of America Federal Savings Bank), where the vendors collected funds and transmitted them directly to political committees, without the individuals ever exercising ownership or control of the funds.

Although OsiaNetwork’s proposal differs from the proposals in Advisory Opinion 2008-18 (Mid-Atlantic Benefits), Advisory Opinion 1992-40 (Leading Edge Communications), and Advisory Opinion 1988-12 (Empire of America Federal Savings Bank) in some ways, such as the fact that here the participating individuals are not making a purchase or paying any money to OsiaNetwork, it is similar to those proposals with respect to the basic structure of the business arrangement. Under OsiaNetwork’s proposal, a percentage of the funds it collects as a result of the individuals’ participation will pass directly to the client political committees; individuals who participate in the mining pool will not receive or exercise any control over the disposition of the funds. The Commission has consistently concluded that arrangements like this, in which a
company transmits to a political committee a portion of the revenues that the company charges and collects, will result in a contribution under the Act and Commission regulations. See Advisory Opinion 2008-18 (Mid-Atlantic Benefits), Advisory Opinion 1992-40 (Leading Edge Communications), and Advisory Opinion 1988-12 (Empire of America Federal Savings Bank).

Accordingly, the portion of the cryptocurrency mining rewards collected and transferred to participating political committees by OsiaNetwork in excess of the amount representing the individuals’ contributions will constitute contributions from OsiaNetwork to those political committees.

OsiaNetwork, as a limited liability company that has not elected to be treated as a corporation for tax purposes, is not prohibited from making contributions, but its contributions are treated as contributions from a partnership, 11 C.F.R. § 110.1(g)(2), and subject to the contribution limits in section 110.1(b)-(d) of the Commission’s regulations. See also 52 U.S.C. § 30116(a)(1). For purposes of the contribution limits, contributions from a partnership must be attributed to the partnership itself and to each partner, either in direct proportion to his or her share of the partnership profits or by agreement of the partners. 11 C.F.R. § 110.1(e).

2. Under the Act, who may support a federal political committee by volunteering the processing power of their internet-enabled device through services provided by OsiaNetwork in the manner described in this request?

Any individual who may make contributions to political committees may participate in OsiaNetwork’s proposed cryptocurrency mining pool to support a political committee.

As discussed above, an individual’s participation in the proposed cryptocurrency mining pool would result in a contribution to the political committee. Certain categories of persons are
prohibited from making contributions to political committees generally or to some types of committees, or may do so only if certain conditions are met, and therefore individuals must satisfy these requirements in order to participate in the proposed cryptocurrency mining pool.

Namely, foreign nationals may not make contributions in connection with any federal, state, or local election, nor may they make contributions to any political party committee. 52 U.S.C. § 30121(a); 11 C.F.R. § 110.20(b)-(c). Federal contractors may not make contributions to any political party, political committee, or candidate for federal office, or to any person for any political purpose or use. 52 U.S.C. § 30119(a); 11 C.F.R. § 115.2. Corporations and labor organizations are prohibited from making contributions, 52 U.S.C. § 30118(a) and 11 C.F.R. § 114.2, except that they “may make contributions to nonconnected political committees that make only independent expenditures, or to separate accounts maintained by nonconnected political committees for making only independent expenditures.” Note to 11 C.F.R. § 114.2(b). Minors may make contributions to candidates or political committees only if certain conditions are met. 11 C.F.R. § 110.19.

Therefore, the Commission concludes that any individual who is not a foreign national or federal contractor, and who is not using corporate or labor organization resources if the recipient political committee is not an independent expenditure-only political committee (see 11 C.F.R. §§ 114.2(f), 114.9(d)), may participate in the proposed cryptocurrency mining pool subject to the applicable contribution limits, and minors may participate if they meet the conditions set forth in section 110.19.

3. Does OsiaNetwork and/or a federal political committee contracting with OsiaNetwork, have any reporting requirements under the Act with respect to the funds raised as
No, OsiaNetwork will not have any reporting obligations with respect to its proposed activities, although participating political committees must report each contribution received.

The Act requires political committees to file reports of all receipts and disbursements. Specifically, political committees must report the identities of contributors and the amounts and dates of contributions. As discussed above, OsiaNetwork’s proposed activities will result in contributions from the individuals and OsiaNetwork to the participating political committees, and therefore the political committees will be required to report the contributions received from each individual and from OsiaNetwork.

The Act and Commission regulations generally do not require contributors to report their contributions. Accordingly, OsiaNetwork, as any other contributor, is not obligated to report its contributions to political committees.

4. Are there any restrictions on how OsiaNetwork may sell cryptocurrency mined through the “pooling” of processing power of federal political committees’ volunteers’ internet-enabled devices?

No, neither the Act nor Commission regulations restrict OsiaNetwork from selling cryptocurrency mined as described in the request to individuals, through an exchange, or in any other way.

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OsiaNetwork has not asked, and the Commission does not address, whether OsiaNetwork will itself trigger political committee status.
The Commission has established several limitations on cryptocurrency transactions by political committees in order to ensure compliance with the Act and Commission regulations. See Advisory Opinion 2014-02 (Make Your Laws PAC). However, these limitations were considered in the context of political committees — which are subject to contribution amount limitations and source restrictions, reporting requirements, and restrictions on investment activities — transacting in cryptocurrency. These limitations do not apply to OsiaNetwork, which would not be making contributions in cryptocurrency. Accordingly, OsiaNetwork may sell mined cryptocurrency without adhering to the specific guidelines on cryptocurrency transactions and valuation set forth in Advisory Opinion 2014-02 (Make Your Laws PAC).

This response constitutes an advisory opinion concerning the application of the Act and Commission regulations to the specific transaction or activity set forth in your request. See 52 U.S.C. § 30108. The Commission emphasizes that, if there is a change in any of the facts or assumptions presented, and such facts or assumptions are material to a conclusion presented in this advisory opinion, then the requestor may not rely on that conclusion as support for its proposed activity. Any person involved in any specific transaction or activity which is indistinguishable in all its material aspects from the transaction or activity with respect to which this advisory opinion is rendered may rely on this advisory opinion. See 52 U.S.C. § 30108(c)(1)(B). Please note that the analysis or conclusions in this advisory opinion may be affected by subsequent developments in the law including, but not limited to, statutes, regulations, advisory opinions, and case law. Any advisory opinions cited herein are available on the Commission’s website.
On behalf of the Commission,

Caroline C. Hunter,
Chair