

## **Questions and Answers – Digital Currencies**

**Definition:** For the purposes of this Q&A the term digital currency is used to cover all forms of electronic currency that does not have legal tender. Therefore, it covers the digital representation of value that can be traded and functions as a medium of exchange, store of value or unit of account but does not have legal tender status. Importantly, it is not issued by any jurisdiction but fulfils the above by its recognition by the community of users.

### **What is the Isle of Man doing?**

We are looking to recognise digital currencies as a property, rather than a currency, and apply the appropriate anti-money laundering controls that one would expect of a responsible jurisdiction. To ignore the problem of such potential criminal activity is to be negligent of the risks.

### **Aren't digital currencies associated with crime and money laundering?**

There have been a number of instances where digital currencies have been used to facilitate money laundering or have been the subject of other criminal activity. The Isle of Man recognises the risks as well as the potential of this recent innovation. As a responsible international partner, we want to ensure that crime is kept out of the Isle of Man and that can only be achieved by ensuring the appropriate anti-money laundering protections exist.

### **Why is the Isle of Man introducing anti-money laundering controls?**

We are receiving enquiries from all over the world. These are primarily from very credible start-up businesses who want to operate in a controlled manner in a well-respected jurisdiction. Other, less well-funded start-ups are looking to find any home for their business. Currently the proposed activities in digital currencies fall outside of anti-money laundering legislation and other forms of regulation and this poses both risks and opportunities. The absence of regulation leaves a window where business could trade from the Isle of Man yet undertake business practices which are at odds with the Island's stance on anti-money laundering and crime. We do not feel that this is acceptable or responsible.

### **Why isn't the Isle of Man introducing a full prudential regulatory regime if it is concerned?**

Industry innovation is moving at a tremendous pace and introducing a full regulatory regime at this time would be both costly and may well be out of date before the rules are enacted. Further, international standards or restrictions may be introduced as the market develops. Given the relatively small size of the industry (in comparison with main stream finance sector) we have decided to consider a proportionate anti-money laundering regime which can be implemented in a timely manner, protects the Isle of Man's reputation and fights crime.

### **Is the Isle of Man regulating digital currencies?**

No, it is intending to include crypto & digital currencies under the Proceeds of Crime Act 2008 and the Designated Business (Registration and Oversight) Bill 2014 to ensure that the activities undertaken are subject to the anti-money laundering legislation. The same registration and oversight regime that will be applicable to other designated businesses will then apply to digital currency businesses.

### **What are the standards that the Isle of Man is looking to introduce?**

The anti-money laundering registration and oversight regime will ultimately mean that a business in this area will need to register with the Financial Supervision Commission and submit to appropriate reviews to ensure that the business is compliant with the anti-money laundering requirements, is well managed and is run by appropriately skilled and knowledgeable people.

### **What will the regime look like?**

To a large degree the anti-money laundering requirements are already enshrined in legislation. The Financial Supervision Commission will review the necessary activity to determine whether that legislation has been applied appropriately and proportionately by the business concerned in line with a risk based approach.

### **When will the rules start to apply?**

There will be two stages. First there will be the inclusion of digital currency activity in Schedule 4 of the Proceeds of Crime Act 2008, which will occur later in 2014. The effect of this will be that such businesses will need to comply with the Anti-Money Laundering Code. Second will be the inclusion of digital currency activity in the Designated Business (Registration and Oversight) Bill 2014 which is still subject to Tynwald approval and subsequent Royal Assent. It is expected that the Bill will be enacted during the first half of 2015. When enacted digital currency businesses will be required to register with the Financial Supervision Commission who will become responsible for oversight of their anti-money laundering compliance.

### **Will companies actually be given a licence to operate by the Financial Supervision Commission?**

No, designated businesses registered under the Designated Business (Registration and Oversight) Bill 2014 will not obtain a financial services licence but they will be registered to conduct designated business.

### **Will banks on the Isle of Man take business from these new start-up businesses involved with digital currencies?**

Interested companies should approach local banks to discuss their specific requirements.

**Can existing businesses accept payments now in digital currencies?**

Companies need to take their own advice on this matter. What is vital to the Isle of Man is that the consumer is protected at all times.

**Is VAT chargeable on the Isle of Man on payments made with digital currencies?**

The IOM is in a customs union with the UK and therefore the UK rules apply in respect of VAT. The UK has already ruled that the activities of mining a digital currency, exchanging it or charging for related transactions will not be subject to VAT. This is in line with Article 135(1)(d) of the EU VAT Directive.

**What would the benefits be to the Isle of Man economy of accepting these businesses?**

The Isle of Man recognises innovation in the Financial Services and e-Business sectors and is therefore keen to welcome legitimate Digital Currency businesses provided that they adhere to appropriate controls. These businesses will bring jobs and income to the Island and create enhanced career opportunities.

**Would any placement of digital currencies into an exchange registered on the Isle of Man be protected as it is with a deposit in a bank?**

No, the placement of Digital Currency into an exchange is not a deposit, and the deposit protection scheme does not apply. Therefore, consumer discretion should be exercised due to the risk of loss or failure of the businesses.

**Will minimum standards be set for the security systems that these exchanges implement?**

No, but as international standards are developing this may be added into any regime in the future.