

GUIDE



Regulation of Virtual Currencies: A Global Overview

Financial regulators around the globe are developing virtual currency regulations covering issues such as taxation, anti-money-laundering, counter-terrorist-financing, consumer protection and fraud.



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EXECUTIVE SUMMARY

Virtual currency is becoming increasingly mainstream, with major companies such as Dell, Microsoft, Overstock.com and Time Inc. now accepting payment for goods via bitcoin. In response, financial regulators around the globe are developing virtual currency regulations covering issues such as taxation, anti-money-laundering, counter-terrorist-financing, consumer protection and fraud.

The bankruptcy of Japan's Mt. Gox Bitcoin exchange in March 2014, after losing 850,000 bitcoins in a hacking attack, has spurred regulators to act. Mt. Gox later found 200,000 of the missing bitcoins.

Speaking at the [Money 20/20 conference](#) in Las Vegas in November 2014, Benjamin Lawsky, New York State's Superintendent of Financial Services, said the reason New York State proposed its BitLicense regulatory framework for virtual currencies is to prevent another Mt. Gox.

"In February 2014, the panic surrounding the collapse of Mt. Gox, one of the world's largest bitcoin exchanges, highlighted the lack of legal recourse for holders of this digital currency," David Descôteaux, an associate researcher at the Montreal Economic Institute, wrote in his "How Should Bitcoin Be Regulated?" research note.

"Hackers apparently succeeded in stealing hundreds of thousands of bitcoins, to the great misfortune of their legitimate owners. This incident illustrates the fact that in order to develop and grow, bitcoin's legal status will have to be clarified.

"In order for bitcoin to develop its potential and be adopted by a growing number of users, clear rules are required, along with some kind of governmental acceptance. This acceptance doesn't necessarily imply recognition as a currency, much less as legal tender, but rather that its fiscal status not prevent bitcoin from being used in a manner similar to currency," Descôteaux wrote.

A wide spectrum of approaches

Globally, authorities have taken a variety of positions on the regulating virtual currency, from positive to neutral to negative, according to Mercator Advisory Group's "Global Digital Currency Regulations: Divergent Paths" report.

"The global payments industry has been taken aback by the rise of the new payment technology represented by bitcoin and other digital currencies,



Robin Arnfield
Virtual Currency Today

Robin Arnfield has been a technology journalist since 1983. His work has been published in ATM Marketplace, Mobile Payments Today, ATM & Debit News, ISO & Agent, CardLine, Bank Technology News, Cards International and Electronic Payments International. He has covered the United Kingdom, European, North American and Latin American payments markets.



which at its core has the potential to radically change the paradigm in which electronic payments are handled,” said Tristan Hugo-Webb, Associate Director of Mercator’s International Advisory Service and the report’s author.

“Understandably, the response to this paradigm-changing technology has been mixed among regulators, since true understanding of the benefits and opportunities as well as the disadvantages and consequences is hard to come by,” he said.

This report examines regulations for convertible virtual currencies in 14 countries: Australia; Bangladesh; Bolivia; Canada; China; Ecuador; India; Israel; Japan; Mexico; Russia; South Africa; the United States; and Vietnam.

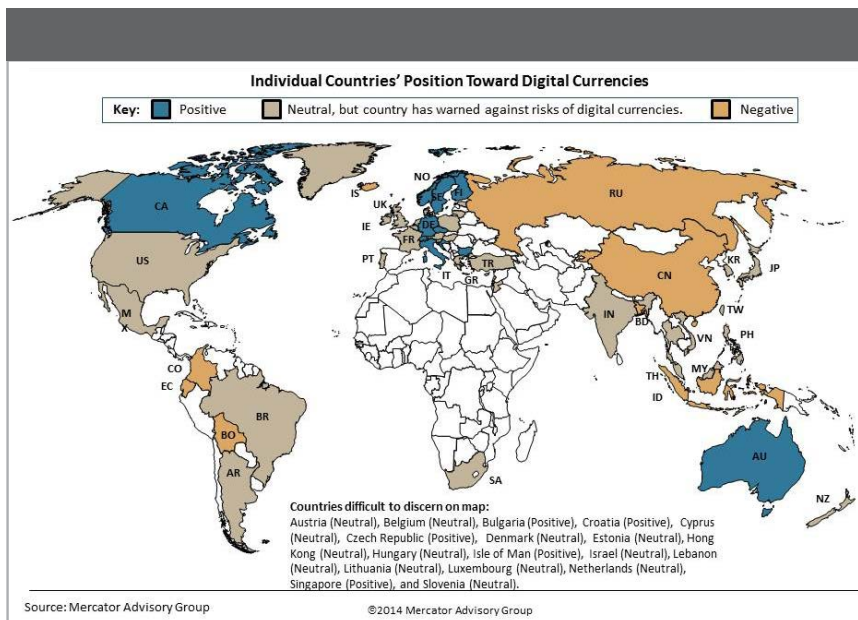
Although all information is current as of this writing (December 2014/January 2015), rules and regulations are constantly swirling, as they strive to keep up with the technology inherent in virtual currencies.

For this reason, readers are urged to keep in mind two factors in particular:

- Conflicting information is not uncommon: Nations and their various governmental agencies are working to determine the definition, acceptance and regulation of virtual currencies – but even these agencies may disagree with one another. This report has indicated the various information conflicts in each country’s listing.
- Currently, there are few endpoints: Use the information that appears here as a guide and a place to start your research, but remember that most virtual currency data remains a work in progress. Check the news sections of websites such as Virtual Currency Today to garner the latest information available.

“In order for bitcoin to develop its potential and be adopted by a growing number of users, clear rules are required, along with some kind of governmental acceptance.”

– “How Should Bitcoin Be Regulated?”
Montreal Economic Institute



Regulatory attitudes toward virtual currencies

COUNTRY	STATUS	REGULATIONS
Australia	Permissive	Bitcoin trades subject to Goods and Services Tax, and bitcoin investments subject to capital gains tax. Australian Tax Office says bitcoin is not a currency, as it is not 'money'. Senate inquiry to report to Parliament in March 2015.
Bangladesh	Hostile	Central Bank issued warning against virtual currencies in Sep 2014, stating that they aren't legal in Bangladesh and advising individuals not to carry out virtual currency transactions. Unclear whether it has formally banned virtual currencies.
Bolivia	Hostile	Central Bank banned any currency not issued or regulated by the government, including a list of virtual currencies, in May 2014.
Canada	Permissive	In June 2014, Parliament passed bill updating Canada's money-laundering and terrorist-financing Act to apply to persons in Canada dealing in virtual currencies, as well as persons outside Canada providing virtual currency services to customers in Canada. The legislation is pending as precise regulations need to be drafted and reviewed. Canada Revenue Agency, the Canadian tax authority, views virtual currencies such as bitcoin as a commodity that can be bought and sold. Any resulting gains or losses from bitcoin trading could be taxable income that must be reported. Senate inquiry into virtual currencies to report to Parliament in June 2015.
China	Contentious	In December 2013, People's Bank of China issued a statement banning banks from handling bitcoin transactions and warning consumers of the risks of using bitcoin. The PBoC said bitcoin is a virtual good, not a currency. In April 2014, Central Bank governor Zhou Xiaochuan said the PBoC did not intend to 'ban' bitcoin.
Ecuador	Hostile	Decentralized virtual currencies banned. Government has created a U.S. dollar-based domestic virtual currency.
India	Contentious	Central Bank warned about risks of virtual currencies in Dec 2013. Virtual currencies are unauthorized but not formally banned. Central Bank is investigating virtual currencies under India's existing legal framework.
Israel	Permissive	Israeli financial regulators issued warning against the risks of virtual currencies in February 2014, but did not issue any regulations.
Japan	Permissive	Japan's governing Liberal Democratic Party said in June 2014 that it had decided against regulating bitcoin for the time being, but would continue to assess the possibility of regulation.

COUNTRY	STATUS	REGULATIONS
Mexico	Contentious	In March 2014, Banco de México, the Central Bank, warned about the “risks of acquiring virtual currencies and using them as an alternative to conventional payment methods.” It said virtual currencies “aren’t legal tender currency in Mexico, since Banco de México doesn’t issue or back them. Financial institutions regulated by Banco de México aren’t authorized to use or carry out operations with them.”
Russia	Hostile	In October 2014, the Ministry of Finance drafted a bill banning virtual currencies, which it wants to become law by Spring 2015. Prosecutor General's Office issued a ban against the use of any sort of monetary substitute for Russia's official currency, the Ruble, in February 2014.
South Africa	Permissive	In February 2014, the Central Bank warned South Africans about the risks of using virtual currencies. It is monitoring virtual currency developments in order to inform any future regulatory approaches that may become necessary within South Africa's jurisdiction.
The U.S.	Permissive	As Internal Revenue Service treats virtual currencies treated as property, not currency, general tax principles applicable to property transactions apply to transactions using virtual currency Financial Crimes Enforcement Network (FINCEN) treats virtual currency exchanges as money services businesses subject to Bank Secrecy Act. Various states are tabling regulation for virtual currencies.
Vietnam	Hostile	In Feb 2014, Central Bank said virtual currencies are neither money nor a legal form of payment in Vietnam. It warned entities and individuals not to invest, possess or carry out transactions in virtual currencies.
Financial Action Task Force	Neutral	FATF published a report in June 2014 defining key virtual currency terms and associated AML and counter-terrorist financing risks associated with virtual currencies.

Source: BitLegal.net (<http://bitlegal.net/list>), Virtual Currency Today research.

CHAPTER 1

United States

U.S. federal and state financial laws and regulations were not drafted with virtual currency in mind. Accordingly, U.S. regulators have begun analyzing existing statutes and rules to determine whether they are sufficiently broad to capture commercial activity in virtual currencies. States that are evaluating or drafting regulations for virtual currencies include California, New Mexico, New York and Texas.

Coinbase

On Monday January 26, 2014, San Francisco, California-based bitcoin wallet provider and merchant processor [Coinbase](#) launched what it says is the first regulated bitcoin exchange in the U.S.

“If you are a Coinbase user in one of the 24 supported U.S. states or territories, you can begin trading immediately on Coinbase Exchange,” [Coinbase](#) said.

States listed by Coinbase include California, New York State and the Commonwealth of Puerto Rico.

However, in California and New York State, Coinbase Exchange is operating in a gray area.

On January 27, 2015, Jan Lynn Owen, Commissioner of California’s Department of Business Oversight, issued a statement to correct erroneous reports that Coinbase Exchange has received regulatory approval from California.

“Numerous press accounts about Coinbase’s January 26 launch of Coinbase Exchange erroneously reported the Exchange has received regulatory approval from the State of California,” Owen said. “The Department of Business Oversight has not decided whether to regulate virtual currency transactions, or the businesses that arrange such transactions, under the state’s Money Transmission Act. California consumers should be aware Coinbase Exchange is not regulated or licensed by the State.”

“We are working with several companies, including Coinbase, on licensing and will continue to move forward expeditiously,” Matthew Anderson, a



spokesman for Benjamin Lawsky, the superintendent of New York State's Department of Financial Services, told the [New York Times](#). "That said, we have not yet issued any licenses to virtual currency firms."

A spokesperson for Coinbase told Virtual Currency Today that Coinbase had received licenses in 14 US states, as well as indications from eight other states including Massachusetts where such licenses aren't required.

[Coindesk.com](#) cited the Coinbase representative as saying that New York State and California are "working on their own bitcoin regulations", adding that they exist in a regulatory "grey zone" regarding bitcoin.

In January 2015, Coinbase received \$75 million in Series C financing, bringing its total funding to \$106 million as at January 2015. According to the Coinbase blog, participants include the New York Stock Exchange; a subsidiary of USAA; and multinational bank BBVA.



Financial Crimes Enforcement Network

The U.S. Treasury's Financial Crimes Enforcement Network (FINCEN) announced in March 2013 that users of virtual currencies are not considered to be money-services businesses (MSBs).

However, virtual currency exchangers and administrators who accept and transmit a convertible virtual currency, or buy or sell convertible virtual currency, for any reason are money transmitters, FINCEN's Guidance said.

They are therefore subject to U.S. government regulations requiring them to register as MSBs and to comply with the money services business reporting and record-keeping requirements of the Bank Secrecy Act (BSA).

FINCEN issued [two rulings](#) in January 2014 to clarify its position on virtual currencies. Its first ruling, [FIN-2014-R001](#), stated that, "to the extent a user creates or 'mines' a convertible virtual currency solely for that user's own purposes, the user is not a money transmitter under the Bank Secrecy Act (BSA)."

In short, individuals who generate or invest in Bitcoin for their own use are not obligated to register and report as exchanges.

The second ruling, [FIN-2014-R002](#), stated that a company purchasing and selling convertible virtual currency as an investment exclusively for the company's benefit is not a money transmitter.

FINCEN definitions

- A user is a person who obtains virtual currency to purchase goods or services.
- An exchanger is a person engaged as a business in the exchange of virtual currency for real currency, funds or other virtual currency.
- An administrator is a person engaged as a business in issuing (putting into circulation) virtual currency, and who has the authority to redeem (to withdraw from circulation) such virtual currency.

In October 2014, FINCEN issued two rulings on virtual currencies, which, according to the Perkins Coie [Virtual Currency Report](#), indicate it considers both virtual currency payment processors and virtual currency exchange platforms to be money transmitters.

“In practical terms, many virtual currency businesses that previously have argued that they are exempt from FINCEN regulations will now have to register as money transmitters, implement an AML program, and comply with other reporting and record-keeping requirements under the Bank Secrecy Act,” [Virtual Currency Report](#) stated.

The first ruling, [FIN-2014-R011](#), addressed a virtual currency trading platform which acts as an exchange matching orders from virtual currency buyers and sellers. Once orders are matched, the virtual currency platform acts as the counterparty to both transactions, buying virtual currency from the seller, and selling virtual currency to the buyer.

FINCEN ruled that each of the two complementary trades constitute money transmission because, under its March 2013 Virtual Currency Guidance, “a person is an exchanger and a money transmitter if the person accepts virtual currency from one person and transmits it to another person as part of the acceptance and transfer of currency, funds, or other value that substitutes for currency.”

The second ruling, [FIN-2014-R012](#), addressed a company that enters into agreements with merchants to accept card payments made in real currency from customers on behalf of a selling merchant, and transfers the equivalent to the merchant in bitcoin. FINCEN concluded that the company is an exchanger under its Virtual Currency Guidance, and is engaged in money transmission, “because it engages as a business in accepting and converting the customer’s real currency into virtual currency for transmission to the merchant.”

In November 2014, FINCEN issued a [statement](#) encouraging banks to issue accounts to MSBs. According to [Virtual Currency Report](#), FINCEN’s statement could be good news for virtual currency companies and other emerging payments providers.

The statement expressed FINCEN’s concern that, “[MSBs] including money transmitters important to the global flow of remittances, are losing access to banking services, which may in part be a result of concerns about regulatory scrutiny, the perceived risks presented by money services business accounts, and the costs and burdens associated with maintaining such accounts.”



FINCEN is concerned that banks are indiscriminately terminating the accounts of all MSBs, or refusing to open accounts for any MSBs, thus eliminating them as a category of customers. “Such a wholesale approach runs counter to the expectation that financial institutions can and should assess the risks of customers on a case-by-case basis,” it said.

The Internal Revenue Service

In April 2014, the Internal Revenue Service (IRS) issued [Notice 2014-21](#), explaining how existing general tax principles apply to transactions using convertible virtual currency.

“Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value,” the IRS said.

The IRS Notice stipulates that convertible virtual currency is treated as property, not as currency, for U.S. federal tax purposes. This means general tax principles applicable to property transactions apply to transactions using virtual currency.

“Under currently applicable law, virtual currency isn’t treated as currency that could generate foreign currency gain or loss for U.S. federal tax purposes,” the IRS said. “A taxpayer who receives virtual currency as payment for goods or services must, in computing gross income, include the fair market value of the virtual currency, measured in U.S. dollars, as of the date that the virtual currency was received. If the fair market value of property received in exchange for virtual currency exceeds the taxpayer’s adjusted basis of the virtual currency, the taxpayer has taxable gain. The taxpayer has a loss if the fair market value of the property received is less than the adjusted basis of the virtual currency.”

The character of the gain or loss depends on whether the virtual currency is a capital asset in the taxpayer’s hands.

“A taxpayer generally realizes capital gain or loss on the sale or exchange of virtual currency that is a capital asset in the hands of the taxpayer,” the IRS said. “For example, stocks, bonds, and other investment property are generally capital assets. A taxpayer generally realizes ordinary gain or loss on the sale or exchange of virtual currency that is not a capital asset in the hands of the taxpayer. Inventory and other property held mainly for sale to customers in a trade or business are examples of property that is not a capital asset.”



“Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value.”

— IRS

Proposed moratorium on virtual currency regulation

In December 2014, Congressman Steve Stockman (R-TX), who did not seek re-election in 2014, submitted [Bill HR 5777](#) to Congress, calling for a five-year moratorium on U.S. virtual currency regulation.

The Bill, titled the “Cryptocurrency Protocol Protection and Moratorium Act,” suggests that no federal or state government make “any statutory restrictions or regulations” concerning virtual currency for five years beginning June 2015. It says that “no new statutes, regulations or advisory opinions be passed, implemented, enforced or issued governing the creation, use, possession or taxation of cryptocurrencies, the protocols governing each and the data, codes, algorithms or other calculations comprising each, until the expiration of the moratorium ...”

In addition, the Bill calls for treating virtual currencies “... as currency instead of property in order to foster an equitable tax treatment and prevent a tax treatment that would discourage the use of any cryptocurrency.” It says that “taxpayers accepting cryptocurrency in trade or commerce should be deemed to realize actual income only when cryptocurrency is monetized through conversion or exchange into dollars or any official government currency, and that fair market value should be calculated as net proceeds from the conversion.”

The Bill has been referred to the House of Representatives Committee on Ways and Means and the House Committee on Financial Services.

Derivatives

Timothy Massad, the chairman of the U.S. derivatives regulator [Commodity Futures Trading Commission](#) (CFTC), told the U.S. Senate Committee on Agriculture, Nutrition and Forestry in December 2014 that virtual currency derivatives fall within his agency’s remit.

Massad said that, while the CFTC doesn’t have specific rules governing virtual currencies, its authority extends to futures and swaps contracts in any commodity.

As well as traditional agricultural commodities, metals and energy, the CFTC has oversight of derivatives contracts related to Treasury securities, interest rate indices, stock-market indices, currencies, electricity and heating degree days.

“Derivative contracts based on a virtual currency represent one area within our responsibility,” Massad said. He added that the CFTC will continue to coordinate with other regulatory authorities regarding the issues raised by virtual currencies, as appropriate.



SEC fines operator of virtual currency-related stock exchange for registration violations

In December 2014, the [U.S. Securities and Exchange Commission](#) (SEC) fined BTC Trading Corp., the company behind BTCT.com and litecoinglobal.com, and its founder, Ethan Burnside, for violating the Securities Act of 1933, the Securities and Exchange Act of 1934, and the Investment Company Act of 1940.

In its report, the SEC said that neither of the two online sites were registered as broker dealers, nor were they registered as stock exchanges. However, the sites solicited the public to open accounts and trade securities, as well as enlisting issuers to offer securities for the public to buy and sell.

In addition, the SEC indicated that Burnside offered investors the opportunity to use virtual currencies to buy or sell shares in LTC-Global as well as a separate bitcoin mining venture he owned. These offerings weren't registered with the SEC as required under U.S. federal law.

Burnside was fined more than \$58,000 for the profits and interest he generated and a \$10,000 civil penalty.

"Burnside operated two online enterprises that weren't properly registered to engage in the securities business they were conducting," said Andrew M. Calamari, director of the SEC's New York Regional Office. "The registration rules are vitally important investor protection provisions, and no exemption applies simply because an entity is operating on the Internet or using a virtual currency in securities transactions."

In September 2014, the CFTC authorized swap execution facility TeraExchange to launch U.S. dollar/bitcoin swaps on its platform. This marked the first time that a regulated derivative/financial instrument linked to bitcoin had been authorized in the U.S.

In November 2014, CFTC Commissioner Mark Wetjen told a bitcoin conference organized by Bloomberg that the agency has the authority to take enforcement actions against price manipulation in bitcoin markets. He said the CFTC has this authority because bitcoin meets the definition of 'commodity' under the Commodity Exchange Act. According to Wetjen, the CFTC has the responsibility to ensure the integrity of the derivatives markets, including swaps involving bitcoin and other virtual currencies.

California

In June 2014, Governor Jerry Brown signed Assembly Bill 129, which grants cryptocurrencies such as bitcoin and other digital currencies (e.g., reward points) 'legal money' status in California, into law. Bill 129 passed into law in January 2015.



Previously, it had technically been illegal to carry out transactions involving virtual currencies in California, the state which dominates the U.S. bitcoin industry.

Bill 129 revises section 107 of California's Corporations Code which prohibited the use of "anything but the lawful money of the U.S." However, Bill 129 doesn't specify how virtual currencies should be regulated.

Roger Dickinson, a California Democratic Assemblyman and the bill's author, said reward points function as digital currencies, and wouldn't have been legal without the passage of Bill 129, which legalizes these alternative payment systems between businesses and customers.

Of note: While bitcoin use is now legal in California, it is not technically legal tender, a status reserved for and defined federally as "U.S. coins and currency" under the Coinage Act of 1965.

California's Department of Business Oversight

In December 2014, Bloomberg reported that California's Department of Business Oversight is considering whether to regulate virtual currencies such as bitcoin after determining that it has the authority to do so under the state's existing law governing money transmitters.

"The consensus among staff is that the Department and Commissioner could regulate virtual currency, to some extent, under current state law," Tom Dresslar, a spokesman for the Department of Business Oversight, told Bloomberg. "Consumers would be the prime concern of any regulatory structure we build -- making sure they are fully aware of the risks associated with virtual currency and providing effective, reasonable safeguards against those risks."

Dresslar said a task force had been meeting since November 2013 to consider possible virtual currency regulations, which would cover anti-money-laundering as well as consumer protection.

Dresslar told Virtual Currency Today that the task force's December 2014 meeting had not reached a decision about virtual currency regulations. "We're still deliberating and will in the near future determine whether and how to regulate virtual currency transactions," he said. "It's important to stress that, if we enter this arena, we would not be regulating virtual currency itself, but certain types of transactions involving virtual currency."

Capital Public Radio quoted Dresslar as saying companies offering virtual currencies may have to be licensed in California.



“That licensure process carries with it some significant consumer protections,” Dresslar told Capital Public Radio. “For example, to get a license in the first place they have to have adequate capital to support their business plan.”

Effective July 1, 2013, California’s Department of Corporations and the Department of Financial Institutions merged to form the Department of Business Oversight.

New Mexico

In April 2014, the New Mexico Regulation and Licensing Department issued a warning to consumers and investors on behalf of the New Mexico Securities Division and New Mexico Financial Institutions Division about the risks associated with trading and investing in virtual currencies. Together, these two agencies protect consumers and the marketplace from fraud and other financial crimes.

“We are evaluating the developing market for bitcoin and other forms of virtual currency,” said Alan Wilson, director of the New Mexico Securities Division. “We are studying how virtual currency is used to pay for products or services and how consumers are invited to invest in virtual currency as a commodity. Both uses have certain attractions, and both have definite risks.”

New York

In December 2014, New York’s Department of Taxation and Finance (NY-DTF) issued a memorandum stating that bitcoin will be treated as intangible property. This means that sales carried out in bitcoin or any other freely convertible virtual currency won’t attract sales tax in New York State.

“The use of convertible virtual currency by a customer to pay for goods or services delivered in New York State is treated as a barter transaction,” the NYDTF said. “For sales tax purposes, convertible virtual currency is intangible property. Since the purchase or use of intangible property isn’t subject to sales tax, any convertible virtual currency received by a party to a barter transaction isn’t subject to sales tax.”

However, the NYDTF stated: “If the party that gives convertible virtual currency in trade receives in exchange goods or services that are subject to sales tax, that party owes sales tax based on the market value of the convertible virtual currency at the time of the transaction, converted to U.S. dollars. If the party that trades property or services in exchange for receiving convertible virtual currency gives the other party a sales slip, invoice, or receipt, the first party must separately state the sales tax due in U.S. dollars on the sales slip, invoice, or receipt.”

“The consensus among staff is that the Department and Commissioner could regulate virtual currency, to some extent, under current state law.”

— Tom Dresslar, a spokesman for the Department of Business Oversight





“The use of convertible virtual currency by a customer to pay for goods or services delivered in New York State is treated as a barter transaction.”

— NYDTF

A seller making sales in New York that accepts convertible virtual currency in exchange for taxable goods or services, must:

- Register for sales tax purposes.
- Record in its books and records the value of the convertible virtual currency accepted at the time of each transaction, converted to U.S. dollars.
- Record in its books and records the amount of sales tax collected at the time of each transaction, converted to U.S. dollars.
- Report such sales and remit any sales tax due in U.S. dollars when filing its periodic sales tax returns.

For corporation tax and personal income tax purposes, the NYDTF stated: “New York State Tax Law conforms to the federal treatment of convertible

New York sales tax examples

The New York Department of Taxation and Finance memorandum provides the following examples:

Example 1: An online retailer registered for New York sales tax purposes accepts convertible virtual currency from a customer as payment for home décor items that will be delivered to the customer’s location in New York. In effect, the customer has purchased the home décor items in exchange for the convertible virtual currency, and the retailer has purchased the convertible virtual currency in exchange for the home décor items.

Because home décor items are taxable, the customer owes sales tax based on the taxable receipt for the purchase of the items. The taxable receipt is the fair market value of the convertible virtual currency in U.S. dollars at the time of the transaction.

However, because convertible virtual currency is intangible property, the retailer doesn’t owe any sales tax on its exchange of home décor items for the convertible virtual currency. The retailer must record in its books and records the amount of the sale and the sales tax collected in U.S. dollars, and report the sale and remit the sales tax due in U.S. dollars when filing its periodic sales tax returns.

Example 2: A vendor in New York that accepts convertible virtual currency as payment creates custom computer software for sale to a client. The custom software is delivered to a New York location. Since the sale of custom software is not subject to sales tax, this barter transaction is an exchange of a non-taxable product for non-taxable convertible virtual currency. No sales tax is due on this transaction.

Example 3: A New York resident sends her watch to be repaired at a New York repair shop that accepts convertible virtual currency for its services. Since watch repair services are subject to sales tax, the resident owes sales tax based on the taxable receipt for the purchase of the service. The taxable receipt for the repair service is the fair market value of the convertible virtual currency at the time of the sale.

The repair shop must collect the sales tax and must separately state the tax from the fair market value of the convertible virtual currency on any sales slip, receipt, or invoice provided to the customer. The repair shop must also record in its books and records the amount of the sale and the sales tax collected in U.S. dollars, and report the sale and remit the sales tax due in U.S. dollars when filing its periodic sales tax returns.

virtual currency as detailed in IRS Notice-2014-21. The notice provides that convertible virtual currency is treated as property for U.S. federal tax purposes. General tax principles that apply to property transactions apply to transactions using convertible virtual currency.”

Licensing in New York

In July 2014, New York’s Department of Financial Services (NYDFS) proposed a [BitLicense regulatory framework](#) for regulating virtual currency-related businesses in the State. The proposed regulatory framework contains consumer-protection, anti-money laundering compliance, and cyber-security rules tailored for virtual-currency firms.

Having completed a public consultation period in October 2014, which received more than 3,700 responses including [comments](#) from companies such as Western Union and Coinbase, the NYDFS aims to publish its regulatory framework in early 2015.

On December 18, 2014, Benjamin Lawsky, the NYDFS’s superintendent, announced new revisions to the proposed BitLicense regulations addressing many of the criticisms received during the public consultation period. These included concerns that start-ups wouldn’t be able to afford the compliance measures required to obtain a BitLicense.

“The first version (of the BitLicense proposal) was roundly criticized by bitcoin advocates as overbearing and costly, causing some to declare they’ll do business anywhere but the State of New York,” Glenbrook analyst George Peabody wrote in a blog.

Speaking at a Washington, D.C. event titled, “Payments Policy in the 21st Century: The Promise of Innovation and the Challenge of Regulation,” hosted by the Bipartisan Policy Center in December 2014, Lawsky addressed the regulation of Bitcoin. “In a new area like this, with very complex issues, it’s very important for regulators to listen and see where the regulations makes sense - and of course - correct where necessary,” he said.

Lawsky said key revisions include:

- A clarification on who won’t be required to obtain a BitLicense: software developers; virtual currency miners; individual users; and individuals investing in virtual currency.
- Also not subject to BitLicense requirements: merchants accepting virtual currencies as payment for goods and services, as long as they’re not engaging in other virtual currency activity. Customer loyalty programs, rewards and gift cards denominated in fiat currencies would be excluded from the BitLicense requirement.

“The first version (of the BitLicense proposal) was roundly criticized by bitcoin advocates as overbearing and costly, causing some to declare they’ll do business anywhere but the State of New York.”

— Glenbrook analyst George Peabody

- For virtual currency start-ups and small businesses who are unable to satisfy the requirements of a full BitLicense, the revised regulations would offer a two-year transitional BitLicense “to help provide start-ups with an on-ramp as they build up their operations.” Lawsky noted, however, that the firms would still be required “to meet robust standards for consumer protection and provide safeguards against money laundering.”
- The requirement that licensees obtain address and transaction data for all parties has been dropped. Licensees must now only obtain that information for their own customers or account holders and, to the extent possible, for counterparties to the transaction.
- The record-keeping requirements have been reduced from 10 years to seven years.



Lawsky said the full revised text of the new BitLicense proposal will be uploaded on the NYDFS website for a new round of public comments.

“After an additional 30 days for more public comments, the regulations will likely be finalized in early 2015,” he said. “We hope to have several licensed virtual currency firms and exchanges up and running in New York shortly thereafter.”

Speaking at the Money 20/20 conference in Las Vegas in November 2014, Lawsky gave some details about the proposed transitional BitLicense.

In considering whether or not to grant a transitional BitLicense, Lawsky said the NYDFS could consider, among other factors:

- The nature and scope of the applicant’s business and the associated consumer risks.
- Anticipated transactional and business volume.
- Whether the entity is registered with FINCEN as a money services business.
- The mitigating risk controls already in place (e.g., a bond or other insurance).

“We’re also considering designating a small group of specialized examiners at NYDFS to deal with start-ups and their license applications,” Lawsky said. “This will help give them expertise and a greater understanding of the unique challenges smaller companies and start-ups face, and will enable us to better tailor our regulatory requirements to the firms’ particular situations.”

Texas

In April 2014, Texas Banking Commissioner Charles Cooper issued Supervisory Memorandum 1037, Regulatory Treatment of Virtual Currencies under

the Texas Money Services Act. The memorandum was issued to provide clarity and regulatory certainty for businesses and individuals engaged in virtual currencies. It explains how the Act's money transmission and currency exchange provisions apply to virtual currencies generally, but focuses particularly on cryptocurrencies such as bitcoin.

The memorandum stated that bitcoin transmissions, while permitted, aren't technically "currency" transmissions.

"For purposes of money transmission and currency exchange, the Texas Money Services Act, codified in Texas Finance Code Chapter 151, provides narrow definitions of money and currency," the Texas Department of Banking said.

"Cryptocurrencies do not fit the statutory definitions of either currency or money, and consequently do not by themselves trigger the licensing requirements of the Act. However, some common business activities relating to cryptocurrency that involve the receipt of government-issued (sovereign) currency can trigger the licensing requirements of the Act."

"At this point, a cryptocurrency like Bitcoin is best viewed like a speculative investment, not as money," said Commissioner Cooper. "However, as this innovative technology develops, the Department will continue to evaluate whether the nature of cryptocurrencies and the potential harm to the public warrant additional action."

The memorandum stated that, in Texas:

- Exchange of cryptocurrency for sovereign currency between two parties isn't money transmission. This is essentially a sale of goods between two parties. The seller gives units of cryptocurrency to the buyer, who pays the seller directly with sovereign currency. The seller doesn't receive the sovereign currency in exchange for a promise to make it available at a later time or different location.
- Exchange of one cryptocurrency for another cryptocurrency isn't money transmission. Regardless of how many parties are involved, there is no receipt of money, and therefore no money transmission occurs.
- Exchange of cryptocurrency for sovereign currency through a third-party exchanger is generally money transmission. For example, most bitcoin exchange sites facilitate exchanges by acting as an escrow-like intermediary. In a typical transaction, the buyer of cryptocurrency sends sovereign currency to the exchanger who holds the funds until it determines that the terms of the sale have been satisfied before remitting the



funds to the seller. Irrespective of its handling of the cryptocurrency, the exchanger conducts money transmission by receiving the buyer's sovereign currency in exchange for a promise to make it available to the seller.

- Exchange of cryptocurrency for sovereign currency through an automated vending machine is usually but not always money transmission. For example, several companies sell automated machines called "bitcoin ATMs" that facilitate contemporaneous exchanges of bitcoins for sovereign currency. Most such machines currently available, when operating in their default mode, act as an intermediary between a buyer and seller, typically connecting through one of the established exchange sites. When a customer buys or sells bitcoins through a machine configured this way, the operator of the machine receives the buyer's sovereign currency in exchange for a promise to make it available to the seller. However, some bitcoin ATMs can be configured to conduct transactions only between the customer and the machine's operator, with no third parties involved. If the machine never involves a third party, and only facilitates a sale or purchase of bitcoins by the machine's operator directly with the customer, there is no money transmission because at no time is money received in exchange for a promise to make it available at a later time or different location.

The Department said that a cryptocurrency business conducting money transmission must comply with all applicable licensing provisions of Finance Code Chapter 151 and of Title 7, Texas Administrative Code, Chapter 33.

"In addition, several considerations should be highlighted," the Department stated. "First, because a money transmitter conducting virtual currency transactions conducts business through the Internet, the minimum net worth requirement under Finance Code §151.307 is \$500,000. Be advised that the Commissioner may increase the required net worth up to a maximum of \$1,000,000 based on the factors set out in §151.307(b). Second, a license-holder may not include virtual currency assets in calculations for its permissible investments under Finance Code §151.309. Lastly, pursuant to Finance Code §151.203(a)(3) the Commissioner requires that license applicants who handle virtual currencies in the course of their money transmission activities must submit a current third-party security audit of their relevant computer systems."

Under §151.307(a), a minimum net worth of \$500,000 is required if a business operates through five or more locations. It has been the Department's policy that license-holders operating through the Internet are considered to be in more than five locations.

“At this point, a cryptocurrency like Bitcoin is best viewed like a speculative investment, not as money.”

— Texas Banking Commissioner Charles Cooper

Conference of State Bank Supervisors

In December 2014, the Conference of State Bank Supervisors (CSBS), the nationwide organization of banking regulators for the 50 states plus the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands, issued a [draft model state regulatory framework](#) for virtual currencies.

CSBS has issued a [list of questions for public comment](#) on its draft framework, and comments can be contributed until February 15, 2015.

In February 2014, CSBS formed an Emerging Payments Task Force to evaluate payments developments and innovations, and to examine “the intersection between emerging payments and its members’ roles as state financial regulators.”

Based on its Task Force’s work, CSBS adopted a policy that certain activities involving third-party control of virtual currency -- including for the purposes of transmitting, exchanging, holding, or otherwise controlling virtual currency -- should be subject to state licensure and supervision. CSBS then developed its draft model regulatory framework which includes licensing, consumer protection, market stability, anti-money laundering and cybersecurity requirements for state-licensed virtual currency firms.

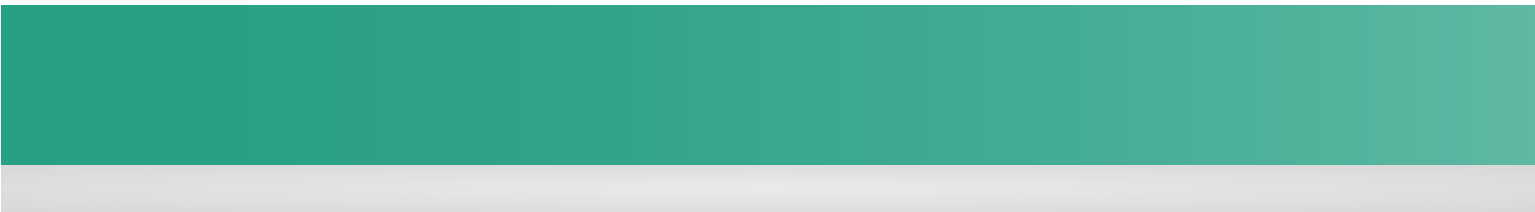
“Over the past year, the Emerging Payments Task Force has heard from both industry and regulators alike that greater consistency and clarity is needed for virtual currency activities,” said David Cotney, Massachusetts’ banking commissioner and the task force’s chairman. “To address this need, the model regulatory framework focuses on activities-based regulation and sets out requirements for licensure and minimum standards for specific business practices. Public input will be key to getting this right, so I and my fellow regulators encourage all interested parties to submit comments.”

CSBS has considerable influence on individual states’ banking laws, although it doesn’t have direct involvement in their laws. Its draft framework states:

“In the case of virtual currencies, licensing and supervision requirements should apply to entities engaged in the following virtual currency activities on behalf of another:

- Transmission.
- Exchanging:
 - Sovereign currency for virtual currency or virtual currency for sovereign currency.
 - Virtual currency for virtual currency.



- 
- Services that facilitate the third-party exchange, storage and/or transmission of virtual currency (e.g. wallets, vaults, kiosks, merchant-acquirers, and payment processors).”

“States can apply activities-based regulations to virtual currency service providers through various means, including laws and/or regulations written explicitly for virtual currency activities, or by interpreting or amending existing laws and regulations – for example, banking or other financial services laws – to include virtual currency in existing licensing schemes,” CSBS said.

CHAPTER 2

Canada

Canada is the first country in the world to enact a virtual currency law.

In June 2014, Canada's Parliament passed [Bill C-31](#), which introduced comprehensive regulation of bitcoin and other virtual currencies to prevent criminal activities associated with virtual currencies such as money-laundering and terrorist-financing.

Bill C-31 brings dealers in virtual currencies under the umbrella of Canada's Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA).

The new regulations mean that firms dealing in virtual currencies will be classified as "money services businesses" and subject to record-keeping, verification procedures, suspicious transaction reporting, including reporting of all transactions over C\$10,000 (\$8,508) and registration requirements.

Virtual currency dealers will be required to register as money-services businesses with Canada's Financial Transactions and Reports Analysis Centre (FINTRAC) and introduce anti-money laundering (AML) compliance measures. Banks will be banned from offering services to firms that don't register with FINTRAC.

Of note: Bill C-31 applies both to bitcoin companies that are located in Canada as well as bitcoin businesses outside Canada directing services at persons or entities in Canada.

The Canadian government said that the legislative and regulatory amendments introduced in Bill C-31 are designed to "strengthen Canada's anti-money laundering and anti-terrorist financing regime and improve Canada's compliance with international standards, while minimizing the compliance burden."

"The Government is currently developing regulations that are needed to enact several of these legislative amendments, including requirements related to virtual currency," said David Barnabe, a spokesperson for Canada's Department of Finance.



“The Government is currently developing regulations that are needed to enact several of these legislative amendments, including requirements related to virtual currency.”

— David Barnabe, a spokesperson for Canada's Department of Finance

Because Bill C-31 doesn't define dealers in 'virtual currency,' it is unclear what kinds of virtual currency-related businesses will be required to comply with Canada's virtual currency regulations. The Bill states that the definition will be included in the final amended version of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations.

However, it's expected that virtual currency exchanges located in Canada -- as well as bitcoin exchanges from outside Canada serving Canadians -- will be required to register as money-services businesses (MSBs).

"The next steps in the process are the drafting of regulations in respect of the changes, a consultation period, and drafting of guidance in respect of the regulations," Christine Duhaime, a financial crime expert at Canadian law firm Duhaime Law, wrote in a [blog](#). "Then the amendments will be brought into force."

Duhaime told Virtual Currency Today that she thinks bitcoin ATMs will be exempt from the regulations.

"This is because they are tied to exchanges who will be the entities required to be registered as MSBs with FINTRAC," she said.

To comply with existing Canadian AML regulations, users can carry out only C\$3,000 (\$2,552) worth of bitcoin transactions per day at Canadian bitcoin ATMs. As of August 2014, there were approximately 30 bitcoin ATMs in Canada.

Provincial regulation

In addition to the requirements of Canadian federal law, dealing in virtual currencies is also subject to provincial law, Jeffrey Graham, D. Ross McGowan, James Mathers and James Szumski of Canadian law firm Borden Ladner Gervais, wrote in a [blog](#).

"Above and beyond provincial laws related to securities, derivatives and money-service businesses, those dealing in virtual currency are also subject to provincial laws of general application including consumer-protection laws," they wrote.

In February 2014, the Autorité des Marchés Financiers (AMF, financial markets authority), Québec's financial regulator, [issued a notice](#) indicating that transactions involving virtual currency are not covered by Québec's financial services compensation fund or its deposit insurance fund.

The AMF said it is closely monitoring the introduction of virtual currency in Québec in terms of the province's Securities Act, Derivatives Act and



Money-Services Businesses Act. The regulator indicated that it will take action in the event of violations under any of these statutes.

Taxation

The Canada Revenue Agency, the Canadian tax authority, views virtual currencies such as bitcoin as a commodity that can be bought and sold. Any resulting gains or losses from bitcoin trading could be taxable income that must be reported.

Where digital currency is used to pay for goods or services in Canada, the rules for barter transactions apply. A barter transaction occurs when any two persons agree to exchange goods or services and carry out that exchange without using legal currency.

For example, paying for movies with digital currency is a barter transaction. The value of the movies purchased using digital currency must be included in the seller's income for tax purposes. The amount to be included would be the value of the movies in Canadian dollars

The Senate

In March 2014, the Canadian Senate's Committee on Banking, Trade and Commerce launched a study of virtual currencies including bitcoin with a view to providing guidelines on their regulation. The Committee, which has been receiving submissions since March 2014, will "examine and report on the use of digital currencies in Canada and report on their risks, threats, and advantages by June 30, 2015."

"The Committee has not yet considered recommendations as part of its study, as it is still collecting evidence," the Clerk to the Committee told Virtual Currency Today.

Bank of Canada

"In Canada, regulation of the financial system is a shared responsibility between the Department of Finance, the Bank of Canada, the Office of the Superintendent of Financial Institutions, the Canadian Deposit Insurance Corporation and the Financial Consumer Agency of Canada," said Louise Egan, senior consultant, media relations in the Bank of Canada's Communications Department.

"The regulatory framework for cryptocurrencies is still being developed. Because of its role as issuer of money and in overseeing payments and



clearing systems, the Bank of Canada would likely play an important role in any regulation of e-money,” she said.

In November 2014, the [Bank of Canada’s Senior Deputy Governor Carolyn Wilkins](#) said that the Central Bank is keeping a close watch on the risks posed by new forms of electronic money, given that its job is to issue currency, promote financial stability and oversee Canada’s payment systems.

Wilkins referred to two types of e-money: the first being denominated in a national currency and representing a claim on the issuer, such as PayPal balances or stored-value cards; the second being cryptocurrencies such as bitcoin, which are not denominated in a national currency, are completely decentralized and don’t represent a claim on the issuer.

“E-money isn’t big enough to pose material risk to financial stability in Canada at this time,” Wilkins said. “That said, money and payments technology is progressing in leaps and bounds, and so the Bank of Canada is watching developments closely.”

Wilkins said that the Bank of Canada regards bitcoin and other cryptocurrencies as investment products rather than money.

“The regulatory framework for cryptocurrencies is still being developed.”

— Louise Egan, senior consultant, media relations in the Bank of Canada’s Communications Department

CHAPTER 3

Mexico

In March 2014, Banco de México, the country's Central Bank, issued a statement on the "risks of acquiring virtual currencies such as bitcoin and litecoin and using them as an alternative to conventional payment methods."

Banco de México noted that authorities in other jurisdictions have warned of the use of virtual currencies in illegal transactions involving fraud and money-laundering. The Central Bank noted that virtual currencies "aren't legal tender currency in Mexico, since Banco de México doesn't issue or back them. In the same way, they aren't foreign currency since no foreign currency authority issues or backs them. They aren't legal tender for any debts or payments, and their use as a form of payment isn't guaranteed, since businesses and anyone else are not required to accept them."

In addition, the Central Bank stated:

"Banco de México doesn't regulate or supervise virtual currencies. Financial institutions regulated by Banco de México aren't authorized to use or carry out any operations with them. Even if virtual currencies don't currently present a risk to the financial system or to payment systems, Banco de México, in coordination with other authorities, will closely follow their development and potential implications, and if deemed necessary, will issue relevant regulations."

Regulatory uncertainty

Despite the Central Bank's statement, Mexican bitcoin companies don't seem overly alarmed about the likelihood of bitcoin being banned in the country and are carrying on their businesses as usual.

According to various sources, Mexican bitcoin businesses have been holding talks with the Central Bank about how virtual currencies should be regulated.

In September 2014, Argentina-based bitcoin exchange Unisend launched an operation in Mexico, Unisend.com.mx.

"I held two meetings with the head of payment systems and the head of corporate communications at Banco de México," Jose Rodriguez, a partner



“Bitcoin just isn’t relevant due to its size in Mexico.”

— Jose Rodriguez, a partner at Unisend Mexico

at Unisend Mexico, told Virtual Currency Today in December 2014. “They said there would be no virtual currency regulation, neither a ban nor a law. (Bitcoin) just isn’t relevant due to its size in Mexico. But they said they would observe bitcoin’s development closely.”

Rodriguez said Unisend hasn’t had any updates or meetings in the last five months with the Central Bank.

“But there is still no other warning, law or announcement. Normally, laws take a year after they are issued in the U.S. to be adopted in Mexico. So probably after BitLicense is implemented (in New York State), the Central Bank will start turning its attention to regulation,” he said.

“Since our March 2014 statement, we have made no further announcements on virtual currencies, nor do we have any plans for regulation,” a Banco de México spokesperson told Virtual Currency Today.



CHAPTER 4

Australia

Australia has yet to introduce any legislation on virtual currencies, but the Australian tax authority has issued guidance on the tax treatment of virtual currencies.

Australia accounts for an estimated 7 percent of the \$4 billion worth of bitcoins in circulation, with reports of online retailers, real-estate agents and pubs accepting bitcoin payments, [according to the Globe & Mail](#).

Goods and service tax

The Australian Taxation Office (ATO) ruled in December 2014 that trading in cryptocurrencies such as bitcoin is subject to the country's 10 percent goods and services tax (GST).

Although GST is not applicable to financial transactions such as buying and selling foreign fiat currencies in Australia, the ATO's GSTR 2014/3 ruling means that the purchase of bitcoins from a bitcoin exchange is subject to GST.

The ATO's ruling contrasts with Her Majesty's Revenue & Customs (HMRC), the U.K. tax authority, which announced in March 2014 that it would no longer charge value-added tax (VAT) on bitcoin trades (<https://www.gov.uk/government/publications/revenue-and-customs-brief-9-2014-bitcoin-and-other-cryptocurrencies>). However, while treating bitcoin like conventional currencies for tax purposes, HMRC avoided declaring bitcoin a currency.

The ATO's [GSTR 2014/3 ruling](#) states that "a transfer of bitcoin from one entity to another is a 'supply' for GST purposes. The exclusion from the definition of supply for supplies of money does not apply to bitcoin because bitcoin is not 'money' for the purposes of the GST Act."

The ATO also stated: "Bitcoin is not a legally recognized universal means of exchange and form of payment by the laws of Australia or the laws of any other country. Therefore, it is not 'currency (whether of Australia or of any other country)' under paragraph (a) of the definition of 'money'."



“Bitcoin is not a legally recognized universal means of exchange and form of payment by the laws of Australia or the laws of any other country.”

— The Australian Taxation Office (ATO)

However, the way that a bitcoin exchange operates will make a difference to its GST liability, [the Guardian reports](#).

Bitcoin trading platforms that don't buy and sell bitcoins themselves and simply provide a facility for third parties to exchange bitcoins will only be liable for GST on the commission they charge -- not on the total amount traded. Bitcoin exchanges that buy and sell bitcoin will be required to charge GST on the full amount of a bitcoin trade.

Capital Gains Tax

"A supply of bitcoin in exchange for goods or services will be treated as a barter transaction, with similar tax consequences," the ATO said in a [guidance document](#) titled "Tax treatment of crypto-currencies in Australia – specifically Bitcoin."

Bitcoin investments are subject to capital gains tax in the same way as assets such as equities, the ATO said.

Australian tax-domiciled businesses and individuals involved in bitcoin transactions will be required to keep records of:

- Dates of transactions.
- The value in Australian dollars as quoted on a "reputable online exchange."
- The transaction's purpose.
- Who the other party is, even if the only identifier is their bitcoin address.

When an individual uses bitcoin to buy goods or services for personal use or consumption, any capital gain or loss from disposal of the bitcoin will be disregarded provided the value of the bitcoin is A\$10,000 (\$8,107) or less.

However, a business receiving bitcoin as payment for goods or services would need to record the Australian dollar value as part of its ordinary income (as with any other non-cash payment). The value in Australian dollars will be the fair market value which can be obtained from a reputable bitcoin exchange, the ATO said. In addition, when receiving bitcoin in return for goods and services, a business may be charged GST on that bitcoin.

Senate inquiry

In October 2014, the Australian Senate's Economics References Committee launched an inquiry into the economic impact of virtual currencies on industries such as financial services and retailing, aiming to present [its findings](#) to Parliament in March 2015.



Chaired by Australian Labor Party Senator Sam Dastyari, the Committee aims to provide guidance on developing Australia’s framework for regulating and taxing virtual currency-related activities.

In a [submission](#) to the inquiry, Eddie Grabler, MasterCard Worldwide’s division president, Australasia, made the following recommendations for Australian virtual currency regulation:

- A requirement that all transactions go through regulated and transparent administrators subject to supervision by Australia authorities (rather than just the current block chain process).
- Licensing and prudential supervision of all administrators comparable to non-bank money transmitters, with obligations to perform KYC, maintain an anti-money-laundering and counter-terrorist financing program, file suspicious activity reports and address cybersecurity vulnerabilities.
- Protections for consumers (e.g., reversal of unauthorized charges and consumer complaint processes).

Licenses

In a submission to the Senate inquiry, the Australian Securities and Investments Commission (ASIC) stated that virtual currencies aren’t financial products and that virtual currency trading platforms don’t need an Australian market license for their operation. Nor do they need an Australian financial services license in order to:

- Trade in digital currency.
- Hold a digital currency on behalf of another person.
- Provide advice in relation to digital currency.
- Arrange for others to buy and sell digital currency.

However, the Australian financial services regulator said that virtual currency derivatives would be subject to existing Australian financial markets regulations.

“Contracts for the sale and purchase of digital currencies are typically settled immediately and as a result are unlikely to be financial products (derivatives),” ASIC said. “However, if there is a delay between the entry of the agreement to sell and the delivery of the digital currency, the contract may be a derivative and the financial services and financial markets regimes would apply in the normal way.”

In addition, ASIC stated that services “which are developed to enable the use of a digital currency to make payments may be a financial product that is regulated by ASIC (e.g., a bill-payment facility utilizing digital currencies may



be a non-cash payment facility), but this will depend on the way the facility works and its particular terms.”

Payment processors exchanging virtual currencies for “monetary value” which can then be used for non-cash purchases of goods and services from merchants may require a financial services license, ASIC said.

In its submission, ASIC said that two Australian bitcoin companies – CoinJar and Living Room of Satoshi – are examples of such services.

CoinJar offers the “Swipe” debit card system, which enables customers to fund an Australian dollar-denominated debit card directly from their bitcoin balance, using CoinJar’s exchange, and use the card like a traditional debit card. Living Room of Satoshi processes bill payments in bitcoins via Australia’s national BPAY electronic bill payment network.

Law enforcement

Reuters [reported](#) in December 2014 that the Australian Crime Commission is investigating bitcoin’s role in organized crime.

Australian Crime Commission Executive Director Judy Lind said investigators will monitor “misuse of virtual currencies to facilitate criminal activity” at a national and international level, under an operation named Project Longstrike.

“We know virtual currencies including bitcoin are used as payment methods to facilitate illicit trade on the darknet,” Lind told Reuters. The darknet is a hidden part of the Internet where information can be shared anonymously and without revealing the location of its source.

In October 2014, Australian police seized Queensland State’s first bitcoin ATM, with the media reporting police believed it was being used by a former motorcycle gang member to deal crystal methamphetamine.

“We know virtual currencies, including bitcoin, are used as payment methods to facilitate illicit trade on the darknet.”

— Australian Crime Commission Executive Director Judy Lind



CHAPTER 5

Japan

Japan has not yet acted to regulate bitcoin.

In March 2014, Japan's ruling Liberal Democratic Party (LDP) formed a committee to investigate cryptocurrencies following the collapse of Tokyo-based Mt. Gox.

The government also issued a statement saying that bitcoin is not a currency or a financial instrument and that the cryptocurrency will be treated like other goods and services, with commercial sales of bitcoin and bitcoin-based transactions subject to sales tax, the Wall Street Journal [reported](#). Any gains on bitcoin exchange rates will also be taxed.

"Any bitcoin transactions are taxable when they fulfill requisitions stated by laws on income tax, corporate tax and sales tax," the government said in its statement.

The government's statement said there are no laws in Japan that ban the creation and operation of bitcoin exchanges. It added that Japanese commercial banks aren't allowed to provide bitcoin as a product to their customers.

Japanese banking law doesn't allow banks to broker bitcoin transactions or set up accounts for customers to store the digital assets, Bloomberg [reported](#) the statement as saying. However, current rules don't prevent brokerages and asset managers from managing clients' bitcoins, the statement said.

In June 2014, the [LDP said](#) it had decided against regulating bitcoin for the time being, Reuters reported.

"Basically, we concluded that we will, for now, avoid a move towards legal regulation," Takuya Hirai, a member of the House of Representatives who leads the LDP's Internet media division, said. Hirai added that a final decision would be made after hearing more opinions on the subject, according to Reuters.



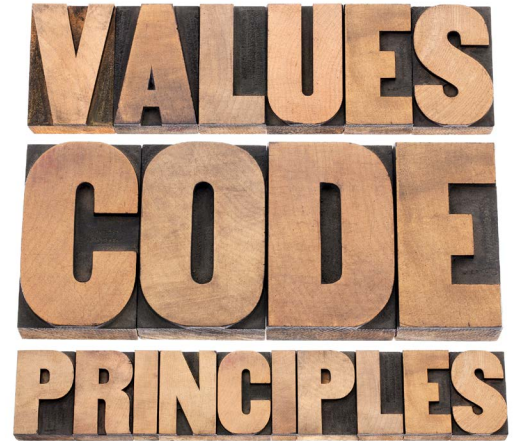
Self-regulation

In July 2014, a bitcoin advocacy group, the [Japan Authority of Digital Asset \(JADA\)](#), was formed with the encouragement of the Japanese government. The purpose of JADA is to establish standards and codes of conduct for its members, effectively acting as a self-regulator for the Japanese bitcoin industry.

Nikkei Business [reported](#) that JADA plans to rebuild trust in Bitcoin with “a steady message on the convenience and safety.”

In addition, reported Nikkei Business, the new JADA guidelines specifically focus on bolstering safety. The guidelines recommend separate management of bank accounts for customer assets and company assets, and set detailed requirements for verifying the identity of users.

“Although the standards are stricter than those in the U.S, where the bitcoin ecosystem is more advanced than in Japan, JADA says they are ‘minimum security measures.’ The association will work to ensure compliance by the entire industry so as to prevent any recurrence of [Mt. Gox],” the paper reported.



CHAPTER 6

China

In December 2013, the People's Bank of China (PBoC), China's central bank, issued a [statement](#) banning banks from handling bitcoin transactions and warning consumers of the risks of using bitcoin. The PBoC said that Chinese banks are not allowed to conduct bitcoin transactions themselves or transfer funds to/and from bitcoin exchanges. It also blocked third-party payment processors from dealing with bitcoin exchanges.

The PBoC said in its December 2013 statement that bitcoin is a virtual good, not a currency, and shouldn't be used as a currency. "Bitcoins are virtual goods that have no legal status or monetary equivalent and should not be used as currency," the PBOC said.

According to a Wall Street Journal [report](#), Chinese banks aren't allowed to offer bitcoin-related services such as deposits, custody services or collateral business. They also are barred from offering insurance services to bitcoin-related businesses or issuing trust and fund products invested in bitcoin, the WSJ reported.

The PBoC said private individuals are free to trade in bitcoins but warned that bitcoin is a risky investment because of its volatility. Chinese bitcoin exchanges are required to file records with regulators and obey anti-money-laundering rules by disclosing suspicious transactions to the authorities.

In April 2014, PBoC governor Zhou Xiaochuan said the PBoC did not intend to "ban" bitcoin, according to the [Chinese Securities Network](#). The governor was quoted as saying, "Bitcoin is more like a collectible, somewhat similar to the collecting of stamps rather than a payment currency."

On April 24, 2014, the PBoC summoned senior executives of China's major banks, urging them to cut off all bitcoin-related businesses, the WSJ [reported](#). It warned the banks they need to set up special groups to monitor accounts that might be conducting bitcoin-related trades and said those that failed to observe its tightened restrictions would be subject to public censure, according to bank officials, the WSJ said.



In March 2014, the PBoC ordered Chinese banks and payment processors to close by April 15, 2014, all accounts opened by operators of websites that trade in bitcoin, Caixin Online [reported](#). In response, Chinese banks sent out notices to local bitcoin exchanges announcing that their accounts would be frozen on April 15, in effect cutting them off from accepting yuan-denominated assets.

At a meeting on April 24, Central Bank officials admonished several banks, including the top five state-run banks, for not strictly observing the PBoC's tightened regulations. All five of the banks had continued to allow new bitcoin-related accounts to be opened despite warnings against this practice, people familiar with the matter quoted the officials as saying.

In May 2014, the CEOs of five leading Chinese bitcoin exchanges -- OK-Coin, Huobi, BTC China, BtcTrade and CHBTC -- [issued a joint statement](#) on Weibo promising they would no longer encourage excessive speculation, protect investors, comply with all state policies and regulations, promote transparency in exchange processes and report new industry developments to the authorities.

The [China Bitcoin Expo](#), was held in September 2014 at the Lake Meilan International Convention Center in Shanghai. In an interview with [Forbes](#), Andrej Šebesta, the event's manager noted that China is "the largest bitcoin market, but we believe it's possible to develop its potential even more. You can find a lot of successful bitcoin businesses within China, new ones are arising every day, that is a very good trend. Yet the gray zone in regulation is a little confusing for many users and entrepreneurs. I'm very confident when talking about bitcoin's future in China, because the country with the world's highest user base will definitely find a way to embrace bitcoin in a sustainable way."

In December 2014, former PBoC vice-governor Wu Xiaoling speaking at the [Sanya Forum](#) international finance event, stated that virtual currencies such as bitcoin "could co-exist with fiat currencies." Wu is currently a member of the National People's Congress Standing Committee and a vice-chairperson of China's Financial and Economic Affairs Committee.

According to a translation [published](#) on Bitcoin Talk, Wu claimed that virtual currencies could function as financial products or assets, but were unlikely to become effective daily currencies.



CHAPTER 7

Bolivia

In May 2014, Bolivia's central bank, Banco Central de Bolivia, issued Resolution 044/2014, which bans any currency not issued or regulated by the Bolivian government or by other States, including bitcoin and other cryptocurrencies such as namecoin, ixcoin, devcoin, freicoi, 10coin, liquidcoin, peercoin, quark, primecoin and feathercoin.

According to Spanish-language publication [PanAm Post](#), the Central Bank said that only money or currency issued by a State can be used in Bolivia, and that, because cryptocurrencies cannot be regulated, they could cause losses to their users.

Electronic payment transactions taking place in the Bolivian national payment system and denominated in currencies which are not authorized by the central bank are illegal in Bolivia, the resolution said. In addition, the Resolution said that domestic mobile-wallet payments must be conducted in Bolivia's currency, the Boliviano.

Article 331 of Bolivia's constitution states that the provision of financial services and any other "activities related to the management, use, and investment of savings is of public interest," and can only be exercised with the permission of the Bolivian government, PanAm Post said.

The Central Bank's Resolution is intended "to ensure the stability of domestic purchasing power," according to PanAm Post.

In June 2014, the [PanAm Post](#) quoted Franco Amati, the co-founder of Bitcoin Buenos Aires: "What the CBB is doing is not just an authoritarian measure that restricts the personal liberty of citizens, it also runs afoul of the regulatory frameworks being implemented in the rest of the world."



“What the CBB is doing is not just an authoritarian measure that restricts the personal liberty of citizens, it also runs afoul of the regulatory frameworks being implemented in the rest of the world.”

— Franco Amati, the co-founder of Bitcoin
Buenos Aires

CHAPTER 8

Ecuador

In July 2014, Ecuador's Congress voted to ban bitcoin and other stateless decentralized digital currencies, and approved plans for Ecuador's own fiat currency-based digital money which will coexist with the U.S. dollar, Ecuador's official currency.

Ecuador's official digital currency, Sistema de Dinero Electrónico (electronic money system) is backed by the assets of Ecuador's central bank, Banco Central del Ecuador. The Monetary and Financial Regulatory Committee of Ecuador's National Assembly will oversee the new currency, while the central bank will develop and integrate it into the broader financial system. Citizens violating the ban on decentralized virtual currencies run the risk of prosecution as well as having their virtual currency holdings confiscated by the Ecuadorian government.

The bank's president, Diego Martinez, said in a statement to Congress in June 2014 that the government's digital currency is designed to facilitate access to Ecuador's banking system for the country's poorest residents. Approximately 40 percent of the population do not have access to a bank account, according to a [report in World Finance](#).

However, according to a Wall Street Journal [blog post](#) by Mary O'Grady, the digital currency is a cynical ploy by the Ecuadorian government, which has a fiscal deficit, to pay its bills.

Registration

In December 2014, Ecuador began the process of registering its citizens interested in receiving the government-backed Dinero Electrónico digital currency, [Virtual Currency Today reported](#).

The launch of the registration process followed a pilot of Dinero Electrónico in November 2014; about 800 consumers were able to purchase the digital currency at branches of retailers and financial institutions including Farmacias Sana-Sana, Hipermarket, Banco del Pacífico and Cooperativa de Ahorro y Crédito Guamote (Savings and Credit Cooperative of Guamote).



Effective December 23, 2014, any citizen of Ecuador 18 years of age or older can register via text message to set up a free digital currency account, the central bank stated. They will then be able to carry out transactions such as loading value to their account, purchases and person-to-person transfers, once the new currency is distributed, which is expected to take place in February 2015.

The central bank said that it plans to add a facility during the second half of 2015 enabling the digital currency to be used for paying taxes and public services bills.

Children, tourists and foreigners are not eligible to participate in the digital currency, according to the central bank.



CHAPTER 9

Israel

In February 2014, five regulators -- the Bank of Israel, the country's central bank, the Capital Market, Insurance and Savings Department, the Israel Tax Authority, the Israel Securities Authority and the Israel Money Laundering and Terror Financing Prohibition Authority -- issued a joint statement on the risks of decentralized virtual currencies such as bitcoin.

Like regulators in other countries, the Israeli regulators stressed that virtual currencies aren't legal tender because they are neither issued nor backed by a central bank. "In addition, they are not legal tender in Israel, and therefore there is no requirement to accept them as payment for any asset or service or as repayment of a financial loan," the statement said.

The regulators warned financial institutions to take into account in their risk-management policy the fact that virtual currency transactions can be anonymous and involve money-laundering and terrorist-financing. They should also report virtual currency transactions to the Israel Money Laundering and Terror Financing Prohibition Authority.

"Because the anonymity of virtual currencies is liable to be exploited for criminal activity, including money-laundering, financing illegal activities, and financing terrorism, law enforcement authorities are likely to close trading platforms in virtual currencies which are used for illegitimate activities, by preventing access or use of customers' capital, which would likely be held by those platforms," the statement warned.

The regulators said that "trade in virtual currencies is not supervised by any Israeli government authority. It should be noted that Israeli traders in bitcoins and similar products who are listed as currency service providers at the Ministry of Finance, are not listed there with regard to trade in virtual currencies, but only to related activities. Likewise, the Israel Securities Authority does not oversee trading in bitcoin or similar products or in securities for which they serve as their underlying assets."

The statement said that the regulators are looking at the question of bitcoin regulations:



“In a meeting convened by the Governor of the Bank of Israel, with the participation of representatives from the Capital Market, Insurance and Savings Department, the Israel Tax Authority, the Israel Securities Authority, and the Israel Money Laundering and Terror Financing Prohibition Authority, it was agreed to continue to examine various perspectives related to the use of, and trade in, virtual currencies. These perspectives include possible macro affects, their legal standing, their regulation, money laundering and terror financing risks, taxation, and consumer protection.

With that, and before the overall assessment is completed, it was decided by the entities noted above to call the public’s attention to the possible risks inherent in virtual currencies such as bitcoin.”

No plans for regulation

Israeli regulators have yet to announce any plans to regulate virtual currencies, as of January 2015.

Israeli lawyer Shiri Shaham, who specializes in banking law, told Israeli newspaper Ha’aretz that “there is no legislation in Israel today that addresses bitcoin.”

The regulators’ February 2014 statement simply concluded by saying:

“The Bank of Israel, the Capital Market, Insurance and Savings Department, the Israel Tax Authority, the Israel Securities Authority, and the Israel Money Laundering and Terror Financing Prohibition Authority recommend to members of the public considering the use of decentralized virtual currencies to understand their characteristics, to be aware of the unique risks inherent in their use, and to display heightened awareness and caution. With this, the authorities in Israel join regulators in the U.S., Canada, the European Union, and elsewhere, who have published similar warnings to the public.”

In August 2014, Israeli regulators set up an interministerial team to discuss issues connected with decentralized virtual currencies such as bitcoin. The team is led by the Director of the Bank of Israel Research Department Prof. Nathan Sussman, and includes representatives of the Bank of Israel, the Ministry of Finance, the Ministry of Justice, the Israel Securities Authority, the Israel Tax Authority, the Israel Money Laundering and Terrorism Financing Prohibition Authority and the National Economic Council.

Taxation

Israeli newspaper Globes reported in September 2013 that the Israeli Tax Authority is considering imposing a tax on profits from bitcoin trading.



“In the Tax Authority’s opinion, whoever profits from bitcoin trading owes tax, although at this stage it is not yet clear what model for taxing profits will be used because in reality bitcoin is not recognized as an official currency,” Globes reported.

The newspaper cited a source at the Tax Authority as saying: “We cannot ignore this phenomenon (bitcoin) which one way or another involves financial transactions and therefore we are examining its importance.”

As at January 2015, no announcement has been made on Israel’s taxation policy regarding bitcoin.



CHAPTER 10

South Africa

Currently, there are no specific laws or regulations addressing the use of virtual currencies in South Africa. The South African authorities are monitoring the virtual currency landscape to see whether regulations are needed.

“There are no plans to regulate bitcoin at this stage,” Natalie Labuschagne, a spokesperson for the National Treasury, told Virtual Currency Today. “However, the authorities are monitoring its use and potential misuse, and are also monitoring regulatory developments internationally.”

In February 2014, Hlengani Mathebula, head of group strategy and communications at the South African Reserve Bank, the country’s central bank, issued a warning about bitcoin, [BusinessTech](#) reported.

“Bitcoin has no legal status or regulatory framework,” Mathebula said. “Thus, it poses a number of risks for those that would choose to transact with it such as the lack of guarantee of security, convertibility or value. The South African Reserve Bank is actively monitoring the developments around virtual currencies to inform any future regulatory approaches that may become necessary within the South African jurisdiction.”

The South African Reserve Bank and the National Treasury, which is part of the Ministry of Finance, together constitute South African’s monetary authority.

In September, the National Treasury issued a [consumer alert](#) about virtual currencies.

“The National Treasury, the South African Reserve Bank, the Financial Services Board, the South African Revenue Service and the Financial Intelligence Centre would like to warn members of the public to be aware of the risks associated with the use of virtual currencies for either transactions or investments,” the statement indicated. “Accordingly, we strongly advise users to consider the concomitant risks when evaluating undertakings involving virtual currencies. The relevant authorities will continue to monitor and assess the use of virtual currencies and consult with private sector stakeholders in this regard. Further guidance or regulations may be issued, should the need arise.”



The statement said that currently there are no specific laws or regulations in South Africa addressing the use of virtual currencies.

“Consequently, no legal protection or recourse is afforded to users of virtual currencies,” it said. “Due to their unregulated status, virtual currencies cannot be classified as legal tender as any merchant may refuse them as a payment instrument without being in breach of the law. In addition, virtual currencies cannot be regarded as a means of payment as they are not issued on receipt of funds. The use of virtual currencies therefore depends on the other participant’s willingness to accept them.”

The statement noted that, while virtual currencies can be bought and sold on various platforms, they are not defined as securities in terms of the Financial Markets Act, 2012 (Act No. 19 of 2012).

“The regulatory standards that apply to the trading of securities therefore do not apply to virtual currencies,” it said. “Because virtual currencies are not regulated, users are not protected and are at the risk of losing money.”

Position paper

In December 2014, the Reserve Bank published a [position paper on virtual currencies](#).

“The Bank does not oversee, supervise or regulate the virtual currency landscape, systems or intermediaries for effectiveness, soundness, integrity or robustness,” the paper said. “Consequently, any and all activities related to the acquisition, trading or use of virtual currencies (particularly decentralized convertible virtual currencies) are performed at the end-user’s sole and independent risk and have no recourse to the Bank.

“Given the current landscape and information currently available, the Bank contends that virtual currencies pose no significant risk to financial stability, price stability or (South Africa’s) National Payment System. In line with the Bank’s position that regulation should follow innovation, the Bank continues monitoring developments in this regard and reserves the right to change its position should the landscape warrant regulatory intervention.”

“There are no plans to regulate bitcoin at this stage.”

— Natalie Labuschagne, a spokesperson for the National Treasury



CHAPTER 11

India

As of January 2015, there are no regulations governing virtual currencies in India.

In December 2013, the [Reserve Bank of India](#) (RBI) issued a warning against the “potential financial, operational, legal, customer protection and security-related risks” of using virtual currencies. However, the central bank did not institute a ban or any other restrictions on using virtual currencies.

“The creation, trading or usage of virtual currencies including bitcoins, as a medium for payment are not authorized by any central bank or monetary authority,” Ajit Prasad, the RBI’s assistant general manager, said in the December 2013 statement. “No regulatory approvals, registration or authorization is stated to have been obtained by the entities concerned for carrying on such activities. As such, they may pose several risks to their users.”

“The Reserve Bank of India is presently examining the issues associated with the usage, holding and trading of virtual currencies under the extant legal and regulatory framework of the country, including Foreign Exchange and Payment Systems laws and regulations,” Prasad said.

The [Hindu Business Line](#) newspaper quoted K. C. Chakrabarty, the RBI’s Deputy Governor, as saying in December 2013 that the RBI neither regulates nor supports bitcoin.

Temporary shutdowns

Following the RBI’s December 2013 statement, a number of Indian bitcoin exchanges shut down their operations, but most later reopened, the Press Trust of India [reported](#).

In addition, several new bitcoin exchanges opened in India during 2014 such as BitQuick.in and BTCXIndia, which states on its website that it “follows AML and KYC guidelines.” In January 2014, HighKart.com became the first e-commerce site in India to exclusively accept bitcoins as a payment method.

The largest Indian bitcoin exchange BuySellBitCo.in’s premises were raided



“The creation, trading or usage of virtual currencies including bitcoins, as a medium for payment are not authorized by any central bank or monetary authority.”

—Ajit Prasad, the RBI’s assistant general manager

by the Indian authorities shortly after the RBI issued its December 2013 statement on virtual currencies. BuySellBitCo.in subsequently shut down its trading operation.

BuySellBitCo.in's website states: "Post the RBI circular, we are suspending buy and sell operations until we can outline a clearer framework with which to work. This is being done to protect the interest of our customers and in no way is a reflection of bitcoin's true potential or price."

However, Unocoin, which temporarily closed in December 2013, reopened in January 2014. Vikram Nikkam, Unocoin's head of business development, told [CoinDesk](#) that the bitcoin exchange is still in operation because it plays by the rules.

"All transactions are through the banking system to keep all aspects of the transaction within the current legal framework," he said.

Trestor

In January 2015, the Trestor Foundation launched a new digital currency called [Trest](#) (Trestor Donation Receipts) in India. The non-profit private organization aims to help under-developed and developing countries grow their economies.

Trest uses the Trestor Network (T-Net), a decentralized peer-to-peer payment network that is powered by its users with no central authority or middlemen, the Trestor Foundation says. Consumers need to download the T-Net app to their PC or mobile device. They can then use the T-Net digital wallet to send and receive Trests with them.

"Trests can be transferred at minimum (close to zero) fees, and can be easily sent to anyone, anywhere in the world without paying up to 55–60 percent transaction fees," said Kunal Dixit, the Trestor Foundation's founder.

Like bitcoin, T-Net is an open source, peer-to-peer network, and T-Net nodes can be operated by anyone. T-Net transactions are irreversible once they are sent over the Internet, and are counterfeit-proof, the Trestor Foundation says. Also, T-Net uses an advanced form of the same underlying cryptography as bitcoin.

Unlike bitcoin, which can take around 10 minutes, T-Net transactions are fully confirmed in seconds. Also, T-Net allows usernames for accounts, while bitcoin has alphanumeric addresses which are impossible to memorize.



Potential legalization

According to Krishna Jhala, a senior associate at Indian law firm PSA Legal Counsellors, there is scope for virtual currency to be legalized under existing Indian legislation.

“While the RBI has not legalized bitcoins, it has declared them unauthorized as of now,” Jhala wrote in a blog. “Bitcoins are not authorized as yet but there is scope for them to be legalized under different legislations. As per the Foreign Exchange Management Act, 1999, currency is defined as ‘all currency notes, postal notes, postal orders, money orders, checks, drafts, travelers checks, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments, as may be notified by the RBI.’

“According to the definition, the RBI has the power to include bitcoins within the definition of currency. Currency other than ‘Indian currency’ is termed as “foreign currency,” and regulated by foreign exchange laws. Most likely, bitcoins can be governed by foreign exchange laws. Further, bitcoins can also be included within the definition of ‘securities’ which states that ‘such other instruments as may be declared by the Central Government to be securities’.

“Having gone through the various definitions, it can be concluded that there is enough scope for legalizing bitcoins. One has to wait and watch as to which approach the Indian government takes.”

In December 2014, Raghuram Rajan, the RBI’s governor, told [NDTV](#) that eventually India will move towards becoming a cashless society involving virtual currencies and that virtual currencies will improve and become much safer in future.

This statement contrasted with [remarks](#) Rajan made in February 2014, when he expressed skepticism and concern about virtual currencies.



CHAPTER 12

Bangladesh

In September 2014, the Bangladesh Bank, the country's central bank, warned Bangladeshi citizens that the use of bitcoin or any other virtual currency is illegal and that individuals found using virtual currencies could face jail, AFP reported.

"Bitcoin is not a legal tender of any country," Bangladesh Bank said in a statement cited by AFP. "Any transaction through Bitcoin or any other cryptocurrency is a punishable offense."

The central bank said it made its announcement following reports in local Bangladeshi publications that bitcoin transactions were taking place on some online exchanges, AFP reported.

Lack of clarity

However, while the Bangladesh Bank has restricted bitcoin activities, it is unclear, [reports CoinDesk](#), that the bank has instituted a formal ban on virtual currencies.

The Bank's September 2014 statement, says CoinDesk, reads in part: "... Users of [virtual] currency will also be punishable by the Money Laundering Control Act, 2012 for disobeying the stated act."

The [Money Laundering Act, 2012](#) is a revision of a 2009 law designed to bring Bangladesh's AML regulations up to global standards.

Jon Matonis, a founding board director of the Bitcoin Foundation, the U.S.-based bitcoin standardization body, wrote in a September 2014 [blog](#) that Bangladesh Bank's statement is not an outright ban, but rather "a standard cautionary statement."

"Since the release of the (Bangladesh Bank's) statement, our global team has been working in tandem with our local team to obtain more information and, to date, have determined that the statement is a standard issue of caution and not an outright ban," Matonis wrote. "Meaning, the Bangladesh Central Bank is alerting consumers of the risks involved with using bitcoin



“Bitcoin is not a legal tender of any country.”

— Bangladesh Bank

and reminding them that bitcoin is not government-issued or sanctioned.

“At the same time, the statement also makes clear that, when using cryptocurrencies, should you violate any terms of the Foreign Currency Control Act, 1947 or the Money Laundering Control Act, 2012, you will be subject to punishments as prescribed. However, what has been left unclear is if there are any other official statements or conditions under which transacting or even educating others on bitcoin could be considered a punishable offense.”

Because of the regulatory uncertainty in Bangladesh, in September 2014 the Bitcoin Foundation suspended its Bangladeshi affiliate, which had opened in August 2014.

As of January 2014, Virtual Currency Today had not received answers to its emails seeking clarification from either the Bangladesh Bank or the Bitcoin Foundation.



CHAPTER 13

Russia

In October 2014, the Russian Federation's Ministry of Finance announced a draft bill that bans the use of "money substitutes" such as virtual currencies including bitcoin and the creation and distribution of software enabling the use of virtual currencies in Russia.

The Ministry of Finance said it wants the bill to pass into law by spring 2015.

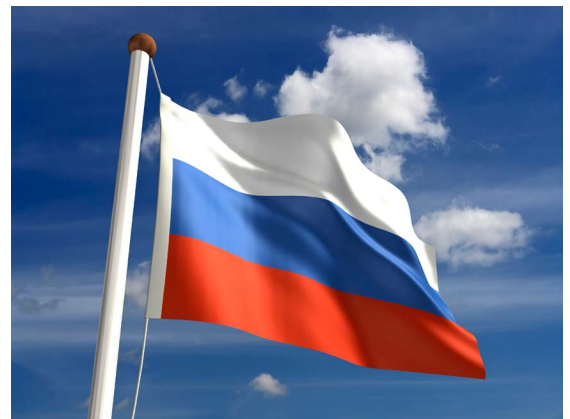
The draft bill establishes a series of penalties for using and generating virtual currencies and for disseminating information which enables the issuance of virtual currencies or transactions involving virtual currencies.

In December 2014, the Ministry of Finance decreased the penalties contained in its draft bill by 20-50 percent. Under the new penalties, private individuals disseminating virtual currencies directly could be fined 20,000-40,000 rubles (\$340-\$680), according to a report by [CoinDesk](#). Private individuals disseminating information about money substitutes could face fines of 5,000–30,000 rubles (\$85-\$510).

Government officials who disseminate virtual currencies directly could be fined up to 80,000 rubles (\$1,362). Legal entities such as companies would face a maximum fine of 500,000 rubles (\$8,513) for disseminating virtual currencies directly. Officials involved in disseminating information related to virtual currencies would face a 50,000 ruble (\$851) penalty, while legal entities would face a 300,000 ruble (\$5,108) penalty.

However, the proposed regulations and penalties will not affect currencies used in online games or electronic money such as WebMoney, Russian online publication Lenta.ru said.

In a December 11, 2014 report by [Izvestia](#), a group of Duma deputies from the "Spravedlivaya Rossya" ("Fair Russia") party announced plans to introduce their own draft bill penalizing virtual currency users in the Lower Chamber of Parliament. As of January 2015, the "Spravedlivaya Rossya" deputies had not submitted their draft bill.



Clarification demanded

In December 2014, [RT.com reported](#) that Russia's Ministry of Economic Development had reacted negatively to the Ministry of Finance's bill to ban "money substitutes," including virtual currencies such as bitcoin. It said the proposed ban could badly affect major Russian telecom operators, retailers and banks.

RT.com quoted the Ministry of Economic Development as saying that the definition of "money substitutes" proposed by the Ministry of Finance lacks precision, as it could include any cash equivalents such as gift cards and certificates. Consequently, Russia's leading retailers, telecom operators and banks would face serious difficulties with their marketing campaigns, as they would not be able to develop points-based loyalty programs to attract new customers.

According to the RBK news agency, Russia's National Payments Council said the Finance Ministry's definition would outlaw bonuses for consumers who prefer to pay with plastic cards. As a result, the move "could throw [Russia's] payment service market a few years into the past, leading to a fall in the number of non-cash payments for goods and services," the National Payments Council said.

RT.com said that, according to Russian regulations, the Ministry of Finance can either re-submit the revised bill to the Ministry of Economic Development, or submit it to the government without changes, enclosing a table of differences.

In January 2015, RT reported that Roskomnadzor, Russia's media regulator, has blacklisted several bitcoin information and resource sites in accordance with a court ruling last September.

The five websites, including popular cryptocurrency community [bitcoin.org](#), sponsored by the Bitcoin Foundation, were entered into Roskomndazor's blacklist of banned websites.... The four other blocked sites include Russian-language forum [btcsec.com](#), Wikipedia-style information site [bitcoin.it](#), Russian bitcoin community [coinspot.io](#) and [indacoin.com](#), an exchange service.

Other points of view

While the Ministry of Finance is seeking a bitcoin ban, not all Russian regulatory authorities are as hostile to virtual currencies.

In November 2014, Evgeny Volovik, head of Russia's Federal Financial Monitoring Service, which combats domestic money-laundering and



terrorist-financing, told [CoinTelegraph](#) that it is technically impossible to ban decentralized cryptocurrencies due to the nature of the Internet.

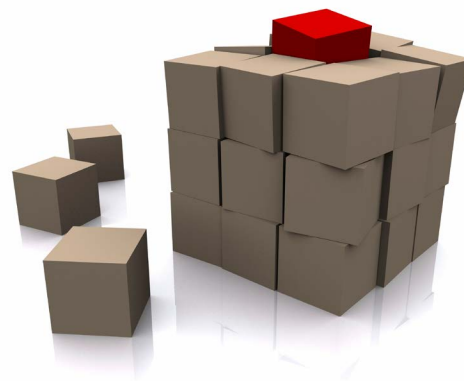
However, Volovik also said he agreed with the Ministry of Finance that a law on virtual currencies is necessary in Russia. “Right now, I’m seeing how our banks are refusing to work with bitcoin companies due to a lack of regulations much like in many other countries,” he said.

In July 2014, Georgy Luntovsky, the Bank of Russia’s Deputy Chairman, indicated that the Russian Central Bank might be willing to legalize bitcoin, [RT.com reported](#).

“We advocate a careful approach to bitcoin and are monitoring the situation along with the Bank for International Settlements,” [Gazeta.ru quoted](#) Luntovsky as saying. “One can’t ignore this instrument, maybe this is the future.”

Luntovsky’s remarks contrasted with previous statements from Russian authorities. In February 2014, Russia’s Prosecutor General’s Office issued a ban against the use of any sort of monetary substitute for Russia’s official currency, the ruble, [RT.com reported](#).

In January 2014, the Bank of Russia warned Russians against using bitcoins, as they could be linked to money-laundering and terrorist-financing, [RT.com](#) said. The Central Bank also said that the use of virtual currencies as money substitutes is illegal under Article 27 of the federal law “On the Central Bank of the Russian Federation (Bank of Russia).”



CHAPTER 14

Vietnam

During 2014, the [State Bank of Vietnam \(SBV\)](#), Vietnam's central bank, stated repeatedly that bitcoin is not a legal form of payment in the country.

In February 2014, the SBV issued a [warning](#) about the risks of bitcoin:

“According to the existing laws on money and banking, bitcoins and other virtual currencies are neither money nor a legal form of payment in Vietnam. That is why utilization of bitcoins and other virtual currencies as a form of payment is not lawfully approved and protected. Credit institutions are not allowed to use bitcoins and other virtual currencies as money or a form of payment in providing services to clients.

“The possession, trading and utilization of bitcoins and other virtual currencies as a type of assets poses potential risks to people and is not lawfully protected. The SBV would therefore like to alert entities and individuals not to invest, possess and make transactions related to bitcoins and other virtual currencies.”

Also in February 2014, an [official statement](#) on the Vietnamese government's newswire site said that the Government and the SBV don't recognize bitcoin as a means of payment in Vietnam.

“According to the State Bank of Vietnam, as stipulated by the Law, only the Vietnam dong (Vietnamese currency) is used in Vietnam as a means of payment,” the statement said. “That is why the Government and the SBV do not recognize Bitcoin as a means of payment in Vietnam.”

Regulatory uncertainty

Currently, there is no specific legislation relating to virtual currencies in Vietnam, according to Dominik Weil, COO at bitcoin brokerage exchange and wallet provider [Bitcoin Vietnam](#). “The relevant governmental bodies are currently exploring possibilities around further regulatory clarification for bitcoin,” he told Virtual Currency Today.

There is regulatory uncertainty in Vietnam as to the legality of bitcoin, as the case of VBTC demonstrates.



In July 2014, when Bitcoin Vietnam and Israel’s Bit2C jointly launched the [VBTC bitcoin real-time exchange](#) in Vietnam, the [VietnamPlus website](#) quoted Bui Quang Tien, head of the SBV’s Payment Department, as saying that the SBV would work with the public security forces to arrest the people operating VBTC.

Bui Quang Tien told the local Vietnamese media that his department, which is responsible for regulating electronic money, hadn’t granted any license to VBTC, VietnamPlus said. In the event, none of VBTC’s staff were arrested.

CoinTelegraph [quoted VBTC](#) as saying in a press release that “bitcoin usage was never prohibited in Vietnam. In fact, the State Bank of Vietnam is currently looking [for] cooperation with the relevant unit of the Department of Public Security to define applicable regulations for Bitcoin usage in Vietnam.”

In December 2014, in a sign of its confidence in the Vietnamese bitcoin market, VBTC announced a partnership with Singapore-based CoinArch to launch a new service on VBTC called “VBTC Plus,” which will be Vietnam’s first bitcoin margin trading platform.

In a January 2015 [press release](#), VBTC stated, “While we see the adoption rate accelerating especially in the Western hemisphere, the Vietnamese bitcoin ecosystem still remains in its very early days so far – but we are confident, that within the next two years, we will see the development of a much stronger, international competitive and expanded domestic bitcoin ecosystem in Vietnam.”



CHAPTER 15

Appendix

The Financial Action Task Force

In June 2014, the Financial Action Task Force (FATF) – the Paris-based inter-governmental body established in 1989 to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other threats to the international financial system -- published a report on digital finance platforms and digital-currency transactions titled “Virtual Currencies: Key Definitions and Potential AML/CFT Risks.”

“The Report is the first step toward the global regulation of bitcoin and other digital finance platforms and digital currencies with the goal of providing uniformity in law of certain key terms for FATF member countries to adopt,” Christine Duhaime of Canadian law firm Duhaime Law wrote in a [blog](#).

The report describes virtual currencies as the wave of the future for payment systems, and as a powerful tool for criminals, terrorist financiers and sanctions evaders to move and store illicit funds. The document’s main purpose is to provide definitions of virtual currencies for anti-money laundering purposes.

“A common set of terms reflecting how virtual currencies operate is a crucial first step to enable government officials, law enforcement, and private sector entities to analyse the potential AML/CFT (anti-money-laundering/ countering the financing of terrorism) risks of virtual currency as a new payment method,” the report states.

The FATF recommends that countries adopt the following definition of virtual currency:

“A virtual currency is a digital representation of value that can be digitally traded and functions as (1) a medium of exchange; and/or (2) a unit of account; and/or (3) a store of value, but does not have legal tender status in any jurisdiction. It is not issued nor guaranteed by any jurisdiction, and fulfils the above functions only by agreement within the community of users

of the virtual currency. Virtual currency is distinct from e-money, which is a digital representation of fiat currency used to electronically transfer value denominated in fiat currency. E-money is a digital transfer mechanism for fiat currency—i.e., it electronically transfers value that has legal tender status.”

“Digital currency can mean a digital representation of either virtual currency (non-fiat) or e-money (fiat) and is often used interchangeably with the term “virtual currency”, the FATF says. In its report, to avoid confusion, the FATF only uses the terms “virtual currency” or “e-money.”

The report distinguishes between centralized virtual currencies with a single administrating authority such as Second Life Linden dollars; PerfectMoney; WebMoney “WM units”; and World of Warcraft Gold; and decentralized virtual currencies such as bitcoin, litecoin and ripple – also known as cryptocurrencies – which are distributed, open-source, math-based peer-to-peer virtual currencies that have no central administrating authority, and no central monitoring or oversight.

The report also clarifies the difference between convertible and non-convertible virtual currencies. Whereas a convertible virtual currency can be exchanged for fiat currency, a non-convertible virtual currency can only be used in a closed-loop environment such as a multi-player online game or a rewards/loyalty scheme.

“The idea behind the creation of the report was that countries would adopt the same definitions in respect of digital financial products so that national legislation from countries on anti-money laundering and counter-terrorist-financing coming down the pipe globally, will be uniform and capable of uniform application, such as for extradition,” Duhaime wrote.

Taxonomy of Virtual Currencies

	Centralized	Decentralized
Convertible	Administrator, exchangers, users; third-party ledger; can be exchanged for fiat currency. Example: WebMoney	Exchangers, users (no administrator); no Trusted Third-Party ledger; can be exchanged for fiat currency. Example: bitcoin
Non-convertible	Administrator, exchangers, users; third-party ledger; cannot be exchanged for fiat currency. Example: World of Warcraft Gold	Does not exist.

Source: “Virtual Currencies: Key Definitions and Potential AML/CFT Risks,” the Financial Action Task Force.

The FATF report outlines several legitimate uses for virtual currencies, including:

1. Ability to improve payment efficiency.
2. Reduction of transaction costs.
3. Facilitation of micro-payments.
4. Facilitation of remittances to the underbanked and unbanked populations.
5. May be held for investment.

The FATF lists the potential concerns with respect to digital currencies as follows:

1. Money-laundering risks.
2. Terrorist financing risks.
3. Anonymity in payment systems.
4. No central oversight.
5. No anti-money laundering systems to detect transactions of concern.
6. No ability for law enforcement to “enforce” at one location or over one system for asset seizures, for example.
7. Global reach that increases risks.
8. Segmentation of transactions worldwide that obfuscate responsibility for financial crime compliance.
9. Customer transaction records that are inaccessible to law enforcement.
10. Ability of digital currency businesses to relocate to countries with lax anti-money laundering controls.
11. Operations that are outside the reach of any country.

About the sponsor

Jumio is a fast-growing credentials management company that utilizes proprietary computer vision technology to authenticate customer ID credentials in real-time web & mobile transactions and reduce mobile checkout friction. Jumio's products are designed to increase revenue, reduce fraud and increase customer satisfaction. Half of the top 10 consumer internet companies, along with hundreds of other retailers, financial institutions, marketplaces, gaming companies across the globe have adopted Jumio products.

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