



DIGITAL JERSEY

DATE: 02.04.2014

CRYPTOCURRENCIES

1. INTRODUCTION

The purpose of this statement, issued by Digital Jersey Limited (“Digital Jersey”), is to summarise Digital Jersey’s position on cryptocurrencies.

Anyone considering undertaking cryptocurrency related activity is strongly advised to seek independent advice, including but not limited to legal advice. Digital Jersey accepts no liability for the contents of this statement.

JERSEY

Jersey is the largest of the Channel Islands. It is an internationally recognized, white-listed, offshore finance centre. It is of critical importance to our economy that we continue to operate in a way which meets the highest international standards. Potential opportunities will always be closely scrutinised to ensure that they are a good match for the island’s needs, including from a reputational perspective.

DIGITAL JERSEY

Digital Jersey is a Jersey incorporated company created and funded by the States of Jersey. Digital Jersey has three main objectives:

- **Economic:** to support sustainable economic growth by encouraging new digital business and innovation, with a view to increasing employment opportunities
- **Social:** to contribute towards the quality of island life through technology developments in areas such as education, e-health and e-government
- **Reputational:** to develop Jersey’s international reputational in the digital arena

Digital Jersey works with other public sector organisations and the private sector to promote and facilitate developments in these areas.



CRYPTOCURRENCIES

In 2013 the European Banking Authority (“EBA”) issued a consumer warning about virtual currenciesⁱ.

The following text is taken from the EBA warning:

“The virtual currency ‘Bitcoin’ has set the scene for a new generation of decentralised, peer-to-peer virtual currencies - often also referred to as cryptocurrencies. Following the currency’s recent growth, dozens of other virtual currencies have followed in Bitcoin’s wake.

HOW DOES IT WORK?

Using Bitcoin as an example, virtual currencies can be bought at an exchange platform using conventional currency. They are then transferred to a personalised Bitcoin account known as a ‘digital wallet’. Using this wallet, consumers can send Bitcoins online to anyone else willing to accept them, or convert them back into a conventional fiat currency (such as the Euro, Pound or Dollar).

New Bitcoins are created online using computer-intensive software known as ‘Bitcoin miners’. This software allows consumers to ‘mine’ small amounts of the currency through solving deliberately complex algorithms. However, the increase in the money supply is fixed so only small amounts are released over time.”

As this excerpt indicates Bitcoin, which was created in or around 2009, is just one of many cryptocurrencies. (The name “cryptocurrencies” derives from the fact that these products are created by the development of an encrypted algorithm.) Whether or not such products constitute “currency” in any given jurisdiction is an important part of any conversation around their use, value and regulation.

In recent years cryptocurrencies have evolved from being a niche interest to forming part of the global dialogue about changes to the ways we do business and ‘disruptive technology’ⁱⁱ.



2. RISKS AND OPPORTUNITIES CONNECTED WITH CRYPTOCURRENCIES

RISKS

As can be seen from the fact that the EBA considered it necessary to issue a consumer warning about cryptocurrencies, these are controversial products. Their value has been highly volatile and they have sometimes been used for illegal purposes, including internet drug trafficking. Partly as a consequence of how they have traditionally been created and used (within a decentralized, unregulated, peer-to-peer network) purchasing and/or investing in cryptocurrencies is considered high risk. Reliance on third party storage facilities has proved problematic for consumers: the collapse of a major Bitcoin exchange, MtGox, in February 2014, was said to have led to the loss of substantial sums.

OPPORTUNITIES

The development of the processes which enable cryptocurrency transactions makes it necessary to consider how these may change the way in which we transact in other contexts. Arguably, one might compare it with the development of email or online shopping.

According to The Economistⁱⁱⁱ :

“Bitcoin is merely the first and, for the time being, the best-known example in a new category. In many ways it is akin to Napster, the pioneering file-sharing service that upended the musical industry in 1999 by allowing internet users to call up almost any song at will. Just as Napster paved the way for BitTorrent, iTunes and Spotify, Bitcoin has triggered a surge of innovation in digital money.”

Locally it is considered that cryptocurrency opportunities may include^{iv} :

- A cryptocurrency exchange
- Custody and “know your client” services in relation to cryptocurrency transactions
- Development of cryptocurrency expert funds
- Using related technology to develop new verification systems for peer-to-peer transactions (given the necessity for certainty in the formation of binding contracts, for example)



Parties interested in pursuing opportunities such as those referred to above have asked Digital Jersey for clarification on matters such as the legality of cryptocurrency use in Jersey. Digital Jersey cannot advise on these issues. As noted above, it is the responsibility of individuals/individual businesses to investigate matters and obtain their own independent advice.

However, it is felt that it may be helpful for Digital Jersey - as a focal point for such matters on the island - to comment on cryptocurrencies and provide its thoughts on some areas.

3. DIGITAL JERSEY STATEMENT

For the avoidance of doubt, the points set out below relate only to Jersey and these comments are made as at the date of this statement.

- Generally speaking, creation of cryptocurrencies (through mining) is not illegal
- Generally speaking, ownership of cryptocurrencies by an individual (rather than as part of a business) is not illegal
- Whether different uses of cryptocurrencies are legal or illegal will depend on the use in question, as with use and misuse of fiat currencies (involvement in drug-trafficking or money-laundering, for example, will lead to prosecution)
- Similarly, whether or not use of cryptocurrencies constitutes regulated activity will depend on the activity in question (a person carrying on the business of a bureau de change or engaging in money transmission services, for example, will be conducting regulated activity)
- The Jersey Financial Services Commission regulates financial services business – if, for example, the owner of a Jersey coffee shop decided to accept cryptocurrencies in exchange for coffee this would not be regulated financial services business
- Any business proposal will need to address a range of regulatory issues, including the need to hold a business licence issued by the Population Office
- Any business or individual receiving an income from any activity will need to consider the tax implications of such activity, such as obligations arising under income tax law and goods and services tax (GST) law



4. NEXT STEPS

Digital Jersey will be continuing to investigate the risks and opportunities around cryptocurrency business, working closely with other organisations including the Jersey Financial Services Commission. It plans to hold a second public workshop on cryptocurrencies in autumn 2014.

5. INFORMATION AND FEEDBACK

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ENDNOTES

i

<http://www.eba.europa.eu/documents/10180/598344/EBA+Warning+on+Virtual+Currencies.pdf>

ii

In relation to the concept of disruptive technology see the following article about the work of Clayton Christensen for example: <http://www.economist.com/node/13636558/print>

iii

<http://www.economist.com/news/leaders/21590901-it-looks-overvalued-even-if-digital-currency-crashes-others-will-follow-bitcoin>

iv

These ideas, and others, were discussed at a public meeting in St Helier, Jersey, on 27th February 2014.



ADDITIONAL INFORMATION

Organisation	Website	About the organisation
Digital Jersey	www.digital.je	See above.
Jersey Business	www.jerseybusiness.je	“Jersey Business provides free, independent, confidential advice and support to businesses in Jersey. We work with businesses at all stages of their commercial journey, from start-up through improvement, growth and exit.”
Jersey Financial Services Commission	www.jerseyfsc.org	<p>“The Commission is responsible for the regulation, supervision and development of the financial services industry in the Island of Jersey for banking, collective investment funds, fund services business, insurance business, general insurance mediation business, investment business, money service business, and trust and company service providers. The Director General is also the Registrar of Companies.</p> <p>Additionally, the Commission is the supervisory body for those sectors that are subject to regulatory oversight of their anti-money laundering and countering the financing of terrorism responsibilities, which includes: Accountants; Lawyers; Estate Agents; High Value Goods Dealers; and Non-Profit Organizations.”</p>
Locate Jersey	www.locatejersey.com	Advice about re-locating to and setting up businesses in Jersey.
States of Jersey	www.gov.je	The website for the States of Jersey, which is the government of the island of Jersey.