

BSP's Regulatory Approach on Cryptocurrencies

2018 BSP-UP Professional Chair Lectures

21-22 November 2018



BANGKO SENTRAL NG PILIPINAS

Disclaimer: “The views expressed in this presentation may contain personal opinions and may not necessarily reflect the views of the Bangko Sentral ng Pilipinas (BSP) Management.”



"No part of this presentation may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording or otherwise—without prior permission of the Supervision and Examination Sector (SES), Bangko Sentral ng Pilipinas."





BASIC FACTS ON VCs

Pros

- ☐ Easy to setup
- ☐ Pseudo anonymous
- ☐ Transparent
- ☐ Low transaction fees
- ☐ Fast

Cons

- ☐ Volatility
- ☐ Security
- ☐ Non-repudiable
- ☐ Potential use in illegal activities



CRYPTOCURRENCY INDUSTRY LANDSCAPE



BANGKO SENTRAL NG PILIPINAS



KEY RISKS FROM CRYPTOCURRENCIES



- Operational Risks
- Settlement and Liquidity Risks
- Consumer Protection Risks
- Money Laundering and Terrorist Financing Risks





BANGKO SENTRAL NG PILIPINAS



BSP & CRYPTOCURRENCIES

- Cryptocurrencies like Bitcoins need not be restricted.
- Issue public advisory
- Employ proportionate application of regulations at the proper time.

**BANGKO SENTRAL NG PILIPINAS**
Pananalaping Matatag, Bansang Panatag



Media Releases

Warning Advisory on Virtual Currencies

03.06.2014

It has come to the attention of the Bangko Sentral ng Pilipinas (BSP) that virtual currencies like Bitcoin are now being exchanged in the Philippines. The public is hereby warned that such exchanges are not regulated by the BSP or by any regulatory authority in the country at this time. Thus, there are no existing regulations which would specifically protect consumers from financial losses if an organization that exchanges or holds virtual currencies fails or goes out of business. Moreover, there is no assurance that the value Bitcoin or any virtual currency would be stable. In fact, its value can be highly volatile. The BSP will be closely monitoring developments on these virtual currencies particularly on their possible use for money laundering and other illegal purposes, and will adopt appropriate measures as needed.

In the meantime, the public is enjoined to familiarize themselves with some basic information on the subject. Further understanding can be gained through personal researches on the internet and other forms of media.

What you need to know about virtual currencies

A virtual currency is a form of unregulated digital money, meaning it is not issued or guaranteed by a central bank. It allows purchase of both virtual goods (such as in online gaming environments and social network) and real goods and services (such as in retailers, restaurants and other establishments). Unlike electronic money, which is backed by cash for 100% of its stored value, virtual currencies are not backed by any commodity like cash, gold or silver. Rather, they are merely valued subjectively according to one's ability to exchange them for goods.



BANGKO SENTRAL NG PILIPINAS

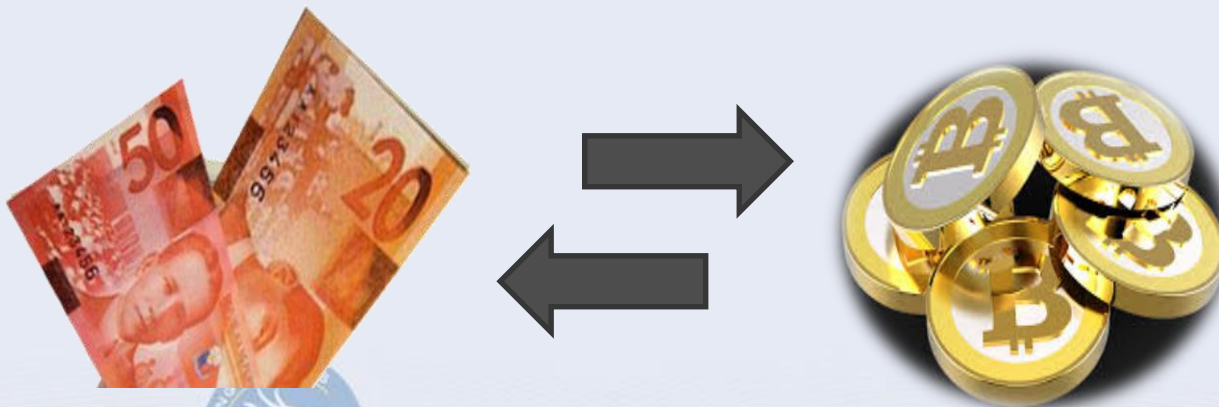
MB Resolution No. 362 dated 27 February 2014



BSP's REGULATORY APPROACH

BSP Circular No. 944 dated 06 February 2017 - Guidelines for Virtual Currency Exchanges (VCEs)

- Covers VCEs in the Philippines offering services or engaging in activities that provide facility for the conversion or exchange of fiat currency to VC or vice versa



BANGKO SENTRAL NG PILIPINAS



BSP's REGULATORY APPROACH

REGISTRATION

- VC exchanges must register with the BSP as a remittance and transfer company

TRANSACTIONAL

- Large value payout (Php500,000 and above - any single transaction) shall be via check payment or direct deposit to bank account
- Transact only with registered VC exchanges



BANGKO SENTRAL NG PILIPINAS



BSP's REGULATORY APPROACH

CONTROLS

- Internal controls,
- Technology risk management
- Consumer protection
- Wallet management
- AML practices

REPORTORIAL

- Audited FS
- Report on volume and value of VCs transacted
- List of official offices and websites

SANCTIONS

- Supervisory actions
- Revocation of license





RECENT DEVELOPMENTS

- Issued provisional license to seven (7) virtual currency exchanges (VCE).
- 40+ VCE applications for evaluation



BANGKO SENTRAL NG PILIPINAS



FORTHCOMING AMENDMENTS

- **AML/CFT**

- ✓ Tightening of AML controls to ensure transactions happen through unbroken chain of regulated entities;

- **Safety & Soundness**

- ✓ Additional capital and operational requirements for VCXs that maintain fiat wallets for their customers;
- ✓ Enhanced cybersecurity controls and other risk mitigants for managing customer VC wallets.

- **Consumer Protection**

- ✓ Full disclosure to customers on the nature of the VC arrangement

GUIDELINES



BANGKO SENTRAL NG PILIPINAS

BSP Circular No. 944



IN SUMMARY

MYTHS

Myth 1: Cryptocurrencies are legal tender and shall soon replace fiat currency.

Myth 2: Cryptocurrencies are bad and are only used for illegal activities.

Myth 3: The BSP endorses the use of and/or investment in cryptocurrencies.

TRUTHS

Truth 1: Cryptocurrencies, not backed by any central authority are not legal tender.

Truth 2: Cryptocurrencies, like fiat currencies, are neither bad nor good. They are neutral.

Truth 3: The BSP does not endorse cryptocurrencies but aims to address its risks as it intersects with the financial system.



BANGKO SENTRAL NG PILIPINAS

