

**Re:**

Position Paper by De Nederlandsche Bank

Roundtable Cryptocurrencies/ICO's, d.d. 24 januari 2018

Payments & Market  
Infrastructures  
Payments Policy

**Innovation changes the payment landscape**

The Netherlands has a secure, reliable and efficient payment system which never ceases innovating. A stable and reliable monetary system is essential to the economy. We encourage innovation in the payment system and, more generally, in the financial sector. New entrants and technologies increase the users' options and motivate incumbents to innovate too.

**Date**

22 January 2018

**The role played by crypto**

There are nearly 1,300 crypto's, such as bitcoin, around the globe. They were developed to transfer value outside the existing monetary system, based on cryptography and without the involvement of third parties such as commercial or central banks. This is why its proponents use terms such as coins, currencies and payments. Crypto's do not currently fulfil the role of money – in fact, they are hardly ever used for payment, and they are not a universally accepted and stable medium of exchange, a suitable unit of account or a reliable store of value. Accordingly, they do not have any implications in terms of monetary policy.

Nevertheless, bitcoin and similar crypto's face growing attention from central banks and financial market supervisors. We are also interested in crypto's, from the perspective of two different roles. First, our role as guardian of financial stability and an efficient and robust payment system and second, our role as a prudential supervisor of integrity and financial solidity of financial institutions.

**Financial stability and an efficient and robust payment system**

The total value of crypto's in circulation is relatively small compared to the liquidity available in, say, US dollars and euros. This means that the crypto market does not currently pose a threat to financial stability.

That said, the recent depreciation of some crypto's may well have resulted in losses for consumers and businesses. Investors need to realise that there will be no

safety net if the value of a crypto or Initial Coin Offering (ICO) token nosedives. We alerted the general public to the risks of bitcoin and other crypto's as early as 2013 because there is no supervision, no deposit guarantee scheme and no counterparties from which losses may be recovered.

While we do not consider crypto's as money, we do see the possibilities of the blockchain technology underlying bitcoin. We closely monitor developments in this area and also conduct our own experiments to gain sufficient knowledge. Since 2015, we have built four crypto prototypes based on blockchain technology, not to launch our own crypto, but to gain insight into the technology. These studies confirm that the technology is still too underdeveloped– too slow, too few transactions per second, unsustainable – to play a role in payment systems. It is, however, interesting and may in the longer run offer possibilities for transactions in the financial world and beyond. Examples include a blockchain that records the origin of foods for each link in the food chain.

### **Integrity of financial institutions**

Integrity supervision conducted by supervisory authorities and central banks monitors the prevention of money laundering and the financing of criminal or terrorist activities. Banks play a prominent role in this respect as gatekeepers of the monetary system. As noted above, bitcoins and other crypto's play a role outside our monetary system. However, their value is still derived from the comparison with currencies in the formal monetary system, which means that the crypto world and our monetary system overlap at some point. This is where crypto's are converted into euros, US dollars or other currencies through crypto exchanges or digital crypto wallets. This is the point at which flows of funds that could be of dubious origin enter and leave the formal economy, and we believe supervision is warranted here. We therefore welcome the agreement reached between the EU Member States in December 2017 about extending the scope of the Fourth Anti-Money Laundering Directive to include crypto exchanges and issuers of crypto wallets. In our view, this must be implemented in Dutch law as soon as possible.

We also ensure that banks and other financial institutions that offer current accounts and other services to crypto firms take sufficient measures to adequately and demonstrably control the resulting potential risks of financial and economic crime. This includes compliance with customer acceptance rules (customer due diligence). If those customer activities are integrity sensitive, which is the case for business-related crypto activities, our supervision will also extend to the operational management of financial institutions with respect to the derived integrity risks to which they are exposed.

### **Solidity of financial institutions**

With regard to our supervision of the solidity of individual market operators, we are very much interested in the new possibilities which the blockchain technology underlying crypto's offers in terms of organising the operational management of financial institutions. In many areas, the opportunities that blockchain opens up in terms of validating documents, verifying identities and authenticating transactions could help increase the efficiency of the services that banks and insurers provide. The experiments we conduct with a crypto and the technology that underlies it provides us with the insight and opportunities to maintain high-quality supervision of the myriad of new initiatives that institutions launch.

Within the context of our InnovationHub, we also discuss questions that new market operators face in developing new products based on blockchain and crypto's. Our own experiments make us a fully-fledged discussion partner for market parties in these areas.

We are currently looking into whether the provision of a combination of services, in which crypto's are converted into euros or other currencies, or vice versa, and a payment service is provided, qualifies as issuing electronic money or as providing a payment service. Examples could include the issuance of prepaid crypto debit cards. If such combined services qualify, they come under the scope of our supervision legislation and require a licence.

We do not currently support a ban on crypto's, as the international nature of the crypto market will make a national ban difficult to enforce. Moreover, as the

crypto market is of minor significance in relation to the economy as a whole, a ban would unnecessary hinder financial innovation.

### **Summary**

We do not consider bitcoins or other crypto's as money, but the speculative nature of investing in them, which appears to be on the rise, is cause for concern. We therefore draw attention to the risks related to crypto's and ICOs and to the absence of supervision or a deposit guarantee scheme. In particular, we call attention to the risks involved, such as those of money laundering or the financing of crime, especially when crypto's are converted into euros or other currencies, and vice versa. We also monitor any trading in crypto's we see at the institutions we supervise, and are considering which additional steps must be taken in terms of supervision, in the Netherlands and across borders.

We believe the blockchain technology underlying bitcoin, is interesting and potentially promising, which is why we invest in gaining an understanding of the technology and conduct our own experiments. We are also engaged in discussions with new and existing market players about potential applications in order to contribute to innovation based on our own role