

Regulation of cryptocurrencies

Introductory thoughts

Tommaso Mancini-Griffoli
IMF

Joint CBS-IMF-ADB Regional Seminar
Samoa, November 13, 2018



New challenges with regulation

1. Regulatory perimeter (entities vs. activity)
2. Cross border/ cross segment
3. Rapid technological change
4. Resources and expertise

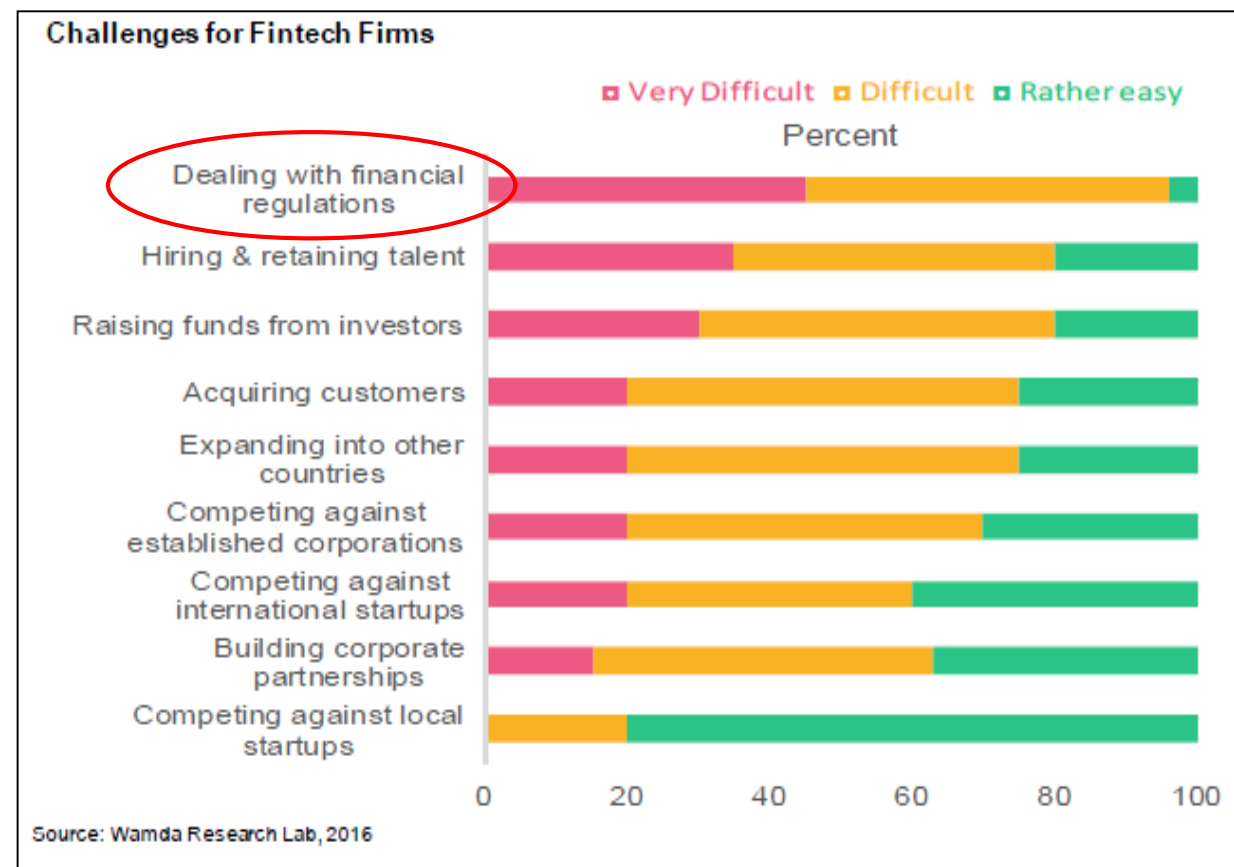
Regulation (or) (and) innovation

Lowest average score Highest average score

1: Strongly agree 2: Somewhat agree 3: Neither agree nor disagree 4: Somewhat disagree 5: Strongly disagree

CHALLENGES TO BROAD DLT ADOPTION	WEIGHTED AVERAGE	INFRASTRUCTURE PROVIDERS	APPLICATION DEVELOPERS	OPERATORS
Legal risks/regulatory framework	1.97	2.25	1.60	1.64
Confidentiality issues	2.09	2.05	2.20	2.10
Reluctance to change established business processes	2.17	2.47	2.00	1.73
Immature technology	2.28	1.85	3.20	2.64
Difficulty of building business network	2.44	2.45	2.20	2.55
Potential issues with data protection laws	2.60	2.85	2.80	2.00
Scalability/performance concerns	2.81	2.70	2.80	3.00
Reluctance to give up some control	2.88	3.05	2.60	2.70
Security concerns	2.91	2.95	2.80	2.89
Unknown costs/benefits	3.08	3.14	3.60	2.70
Lack of suitable use/business case	4.00	4.10	4.00	3.82

Note: The lower the score, the more important the challenge is considered (1: very significant challenge; 5: no challenge at all).



Sources: Hileman & Rauchs (2017); Lukonga (2018)

Framework for regulation: goals and sources of risk



Financial stability

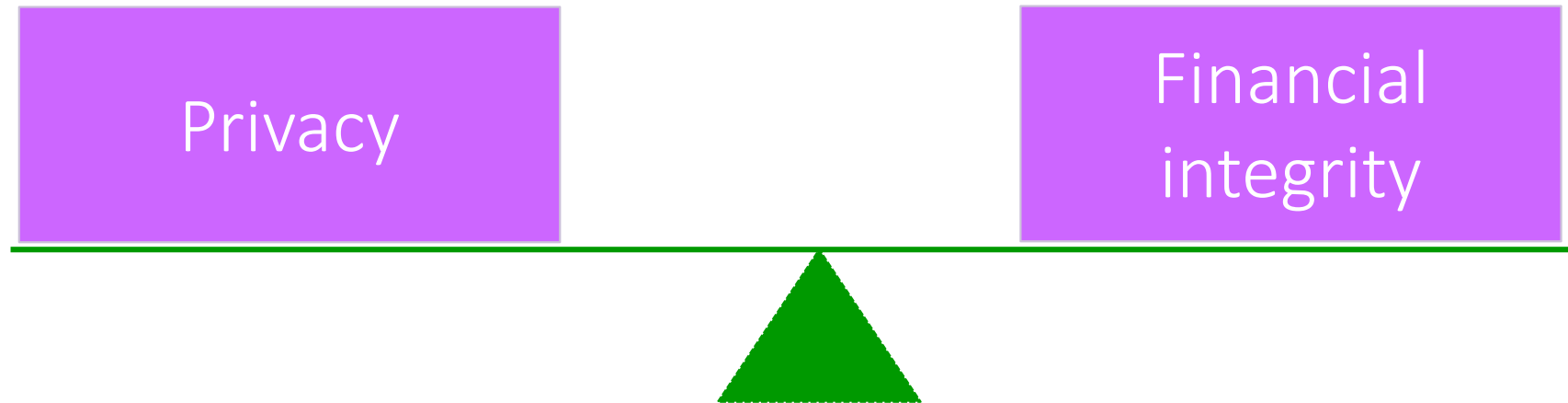
Financial integrity

Consumer protection

Market contestability

- ✓ Identify risk
- ✓ Propose regulation

Tradeoffs between goals



No current consensus



In the case of crypto assets...				
Example*	China, India, Indonesia, Russia	NY State (2015-) Japan (2017-) EU (2018-)	FSB (2018-)	Many?
Pros	No harm caused by regulated entities.	Better monitoring.	Can be on top of the development without taking regulatory responsibility.	Can avoid being interpreted as endorsement.
Cons	Cross-border and underground activities may not be contained. May stifle innovation.	May be misinterpreted as endorsement. Cannot avoid being criticized as either too much or too little.	Need to rely on informally gathered statistics. Cannot contain problems.	May not notice growing problems.

* Prohibition, regulation and monitoring refer only to certain scope of businesses or activities related to crypto-assets. For more specific descriptions, please refer to FATF, "FATF Report to G20 Finance Ministers and Central Bank Governance," July 2018.



New tools

1. Regtech
2. Suptech
3. Sandboxes
4. Others...



New players

Specialized payment providers

- AliPay, M-Pesa, ...
- Stable value
- Widespread adoption
- Risky? Systemic?



Cryptocurrencies