Deloitte.
デロイト トーマツ

トーマツ.

'This newsletter is translated from the Japanese edition distributed on February 23rd.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Will 2018 also be the year of fiscal policy?, etc.

Global Risk Watch Vol.35
28 February 2018

==

≪index≫

==

2. Overview of Development in Financial Regulations (Trends & Topics)

 # Enhanced cryptocurrency regulation (Shiro Katsufuji, Director, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

Call for hightened regulatory framework on cryptocurrency is surfacing on global regulatory roundtable. On February 7, French and German central bank governors and finance ministers sent a letter to the Argentinian finance minister proposing to discuss cryptocurrencies at the upcoming G20 summit in Argentina. At a press conference on January 18, Bruno Le Maire, French Minister for the Economy and Finance, has announced he will present "a joint Franco-German analysis of the risks linked to bitcoin [and] regulation proposals" at the March summit. The Franco-German letter identifies four challenges, namely "Building a common understanding on the nature of tokens," "Monitoring the implications of increasing exposures of market participants to tokens in terms of financial stability and market integrity," "Offering a better protection to non-professional investors," and "Adopting a common approach in the field of anti-money laundering and counter-terrorism financing."

This proposal was developed in order to ensure investor protection and financial system stability given plummeting bitcoin prices in early 2018. Last year at its height, bitcoin's aggregate market value amounted to USD 300 billion, as large as the total market capitalization of one of the largest corporations in the world. However, the big dip in February shrunk the market value to a third of this peak. Current regulations for such a large-scale financial instrument as bitcoin are inadequate. Additionally, it is a common trick for hackers to abuse bitcoin's anonymity and demand the currency as ransom. The global anti-money laundering (AML) regime has established rigid regulations for bank transfers, but there are loopholes for cryptocurrencies.

Furthermore, vulnerability in the cryptocurrency system is also rising in importance in information security. In January 2018, JPY 58 billion (USD 540 million) worth of cryptocurrencies were stolen from a Japanese firm. The Japanese Financial Services Agency issued a business improvement order to the firm and ordered other cryptocurrency exchanges to conduct internal inspections on their risk management regimes and to report the results.

In developed countries, regulation around cryptocurrency supervision is just starting to germinate. In Japan, the revised Payment Services Act introduced a registration system for cryptocurrency exchanges. It also requires them to provide suitable information to users, to segregate customer funds, and to verify transactions for AML purposes. In the U.S. the Commodity Futures Trading Commission (CFTC) now oversees cryptocurrencies after their designation as a commodity. Nonetheless, there is no integrated legislation on this topic, which has led to a multi-faceted regime with several regulators such as CFTC and the Securities and Exchange Commission (SEC) in the same space.

In addition to Germany and France, in the beginning of 2018 international organizations and regulators in certain countries have set forth their regulatory direction for cryptocurrencies. The International Organization of Securities Commissions (IOSCO) published a statement to voice concerns about initial coin offerings (ICO) in January. The US congress held a hearing with the CFTC and the SEC on cryptocurrency supervision. Meanwhile, Chinese regulators have already banned ICO altogether from last September.

Conventional bank deposits and payment systems assure their stability and soundness through stringent regulations. Considering that cryptocurrencies serve a similar purpose to a bank deposit, they should be under supervisory and regulation equal to that of banking. In the consultative document "Implications of fintech developments for banks and bank supervisors" published last August, the Basel Committee on Banking Supervision stated that guidelines equivalent to existing financial system risk management principles should be applied to the operational risks intrinsic to cryptocurrencies. Financial institutions need to build a risk management framework in advance for cryptocurrency offerings and collaboration with fintech firms. This can be tackled from three directions: (1) investor protection and secure transaction as a financial instrument, (2) safety and AML measures as a settlement method, and (3) security procedures as a new information technology.