

Cryptocurrencies – Why it is a Concern

By CBSI Media

The evolution of new technologies supported by the development of intelligent digital technologies are driving transformational changes in the global economy, including how goods and services and assets are exchanged. (IMF 2016)

An important development in this process has been the emergence of virtual currencies such as **cryptocurrencies**.

What is cryptocurrency? Cryptocurrency is a digital currency (or asset) designed to work as a medium of exchange using the strong cryptography powered by the block chain technology to facilitate, secure, control and verify financial transactions.

Cryptocurrency acts a new form of money, digital in nature, privately issued and runs on an autonomous and decentralized ledger technology (DTL). They do not have a central issuer or counterpart like the legal currency issued by Central Banks.

For this reason, cryptocurrencies have no discretionary changes to the money supply. Because of its nature, crypto assets are not restricted to a specific jurisdiction, meaning that anyone can exchange bitcoin with anyone around the world.

As it evolved, cryptocurrencies are also increasingly accepted as a new form of money that permits digital payments and peer-to-peer transactions.

However the growth of such virtual currencies also raises some serious concerns for regulators and policy makers regarding privacy matters; money laundering, consumer protection, or policy matters surrounding governance, international law and security.

For regulators and policy makers this may disrupt and complicate monetary policy management and threatens stability in the banking and financial system.

In a brief assessment done by the Central Bank of Solomon Islands (CBSI) on the Implications of the emergence of cryptocurrencies on the Solomon Islands economy and CBSI, the report states that Solomon Islands is not protected from the uncertainties the emergence of cryptocurrencies may bring.

“As a regulator and policy maker there are two leading concerns for CBSI. Firstly is the likely implications this may have on its core functions that is to maintain price stability and fostering a stable financial system. Secondly to ensure proper legal frameworks are in in place,” the report states.

Although there are some benefits that are associated with cryptocurrencies which have attracted many users in the recent years, there are also related risks that raise major concerns.

On a positive side, the fact that it enhances cross border payments, not restricted to a specific jurisdiction and used as a medium of exchange that permits digital payments and peer-to-peer transactions could be seen as beneficial to its users.

However, the downside of this is cryptocurrencies inherent high volatility in terms of their value and prices, posing significant risks to customers. Secondly, cryptocurrencies have been increasingly used by

the criminals for illegitimate activities like money laundering, terrorist financing and tax evasion. This is a significant issue which raises serious concern for regulators, policy makers and central banks around the world.

The anonymous nature of cryptocurrencies allows illicit transactions to occur outside of the regulatory perimeter. For example, tax authorities will not be able to determine any person who enters in a taxable transaction, which makes it harder for them to detect or sanction tax evasion.

For such reasons, CBSI strongly discourage the public to invest in Cryptocurrency and publicly declare its stance on the topic.

“These cryptocurrencies do not have any legal tender status to be accepted as a currency in Solomon Islands. The Central Bank hereby warned the public that investment in such digital currencies is considered very risky and speculative in nature.

People who invest in any of the cryptocurrencies do so at their own risk. There is no guarantee that cryptocurrencies will be accepted as a medium of exchange, or will hold their value. The Central Bank does not currently endorse unregulated cryptocurrencies, and therefore, does not encourage anyone to invest in any digital cryptocurrencies.”

End//

Contributing Authors:

Charlie Sivu – Senior Analyst , Financial Market & Exchange Control Department (FMECD)

Ronsley Pana – Manager , Financial Supervision and Regulations Department (FSRD)

Sandy Iro – Manager (Acting) Economics Research & Statistics Department