CENTRAL BANK OF
TRINIDAD & TOBAGO

The Case for Regulation of Crypto Assets in Trinidad and Tobago

Dr. Alvin Hilaire, Governor
Central Bank of Trinidad and Tobago

Panel Discussion on “Considerations in Crypto Asset Regulation”
Central Bank Auditorium
September 05, 2023

LIVE STREAMING
www.youtube.com/c/centralbankoftrinidadandtobago

www.central-bank.org.tt; email: info@central-bank.org.tt

Central Bank of Trinidad & Tobago

The Case for Regulation of Crypto Assets in Trinidad and Tobago*
Key Points

1. Crypto assets have grown in usage over the last decade.
2. However, there are significant risks in crypto asset investment.
3. There are three basic approaches regarding public policy on crypto assets.
4. Country approaches already differ substantially.
5. International agencies are striving to establish a harmonised framework.
6. Guidance by international bodies is evolving.
7. There is apparently growing interest and involvement in crypto assets in Trinidad and Tobago.
8. The current domestic legislation does not treat frontally with crypto assets.
9. Domestic regulators have however issued a joint warning statement.
10. There is urgent need for legal and regulatory clarity.

*Principal Contributors: Shanta Dhoray-Baig (Statistics Department) and Tanisha Mitchell (Research Department)

1. Crypto assets have grown in usage over the last decade.

Central Bank of Trinidad & Tobago

"Crypto assets can be defined as products which are privately issued digital representations of value, that are cryptographically secured and deployed using distributed ledger technology."
(IMF 2023)

The main types of crypto assets are:

1. Unbacked coins: These have no backing assets and provide no direct claims on the issuer.
2. Stable coins: These are centrally or decentrally issued crypto assets that aim to have a stable price.
3. Other assets: These include utility and security tokens. Utility tokens provide the holder with access to a product or service; while security tokens meet the definition of securities in certain jurisdictions.

Their key purported benefits are:

1. Transaction speed
2. Cost effective transactions
3. Accessibility
4. Decentralisation
5. May enhance financial inclusion

2. However, there are significant risks in crypto asset investment.

Central Bank of Trinidad & Tobago

There has been substantial price volatility.

Chart 1: Bloomberg Galaxy Crypto Index

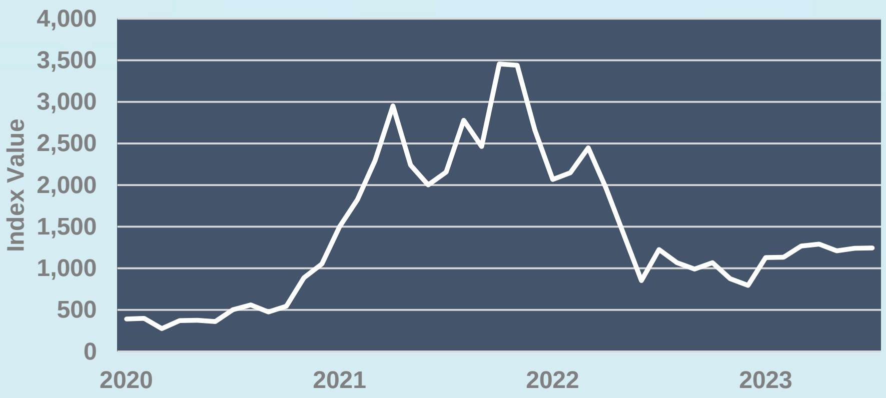


Chart 2: Price of Bitcoin

Source: Bloomberg

Recent events have shaken market confidence:

- Over $450 billion vanished during the market turmoil following the Terra/Luna collapse in May 2022;
- Another $200 billion was lost in the wake of the FTX bankruptcy in November 2022.

(BIS 2023)

Overall risks include:

1. Macroeconomic risks
2. Financial stability risks
3. Financial integrity risks (scams due to underlying technology)
4. Consumer protection risks
5. Legal risks due to classification and lack of regulation
6. Market integrity and contestability issues

(IMF 2023)

CENTRAL BANK OF TRINIDAD & TOBAGO

3. There are three basic approaches regarding public policy on crypto assets.

BAN	CONTAIN	REGULATE
Involves banning crypto activities, either in their entirety or in a targeted manner.	Involves isolating or containing crypto so that it remains more of a niche activity.	Involves identifying activities performed in crypto markets and using existing guiding principles to regulate them.
✓ Any potential harm to the financial system would be eliminated.	✓ Problems stemming from crypto markets will not damage the real economy.	✓ Allows responsible actors to innovate with regulatory compliance and oversight.
✘ Useful innovation from crypto would be lost or delayed.	✘ Containment may introduce complexity.	✘ Standardisation and enforcement can pose challenges.

(BIS 2023)

CENTRAL BANK OF TRINIDAD & TOBAGO

4. Country approaches already differ substantially.

Some jurisdictions have introduced a general regulatory definition of crypto assets. More granular definitions based on functions are less common. Regulations have generally focused on 8 regulatory themes:

1. AML/CFT
2. Investor/consumer protection
3. Operational resilience
4. Corporate governance
5. Prudential regulation
6. Fraud control
7. Market conduct/ integrity regulation
8. Safety, efficiency and integrity of FMI service providers

United States

March 2022: Executive order for federal regulators to assess the broad risks and benefits offered by cryptocurrencies
January 2023: Joint statement by FDIC, the Fed and OCC highlighting the risks posed by crypto assets to banks

European Union

May 2023: The Council of the EU adopted rules on Markets in Crypto Assets (MiCA)

China ✗

September 2021: The People's Bank of China (PBOC) banned all crypto currency transactions.

El Salvador ✓

June 2021: Bitcoin law establishing bitcoin as legal tender

The Bahamas & Cayman Islands

2020: Digital Assets and Registered Exchanges Act
2020: Virtual Assets (Service Providers) Law

Singapore

Jan 2020: Payments System Act
May 2022: Measures to address advertisements
October 2022: Consultation paper of proposals to reduce risks to consumers
July 2023: Response to consultation feedback (Part 1)

Central Bank of Trinidad & Tobago

5. International agencies are striving to establish a harmonised framework.

- "… it's only in the past few years that crypto assets have moved from being niche products in search of a purpose to having a more mainstream presence as speculative investments, hedges against weak currencies, and potential payments instruments." (IMF 2022)

- The concern is that fragmented policies across countries could lead to 'a race to the bottom' (regulatory arbitrage).

- Many organisations have entered the arena.

International Monetary Fund · FSB Financial Stability Board · BIS · The Commonwealth · World Economic Forum

Central Bank of Trinidad & Tobago

6. Guidance by international bodies is evolving.

- e.g. the IMF issued 9 principles to guide its members:
  1. Strengthen monetary policy frameworks and do not grant crypto assets legal tender status.
  2. Analyse and disclose fiscal risks and adopt unambiguous tax treatment.
  3. Establish legal certainty of crypto assets.
  4. Develop and enforce prudential, conduct and oversight requirements.
  5. Establish a guard against excessive capital flow volatility.
  6. joint monitoring framework across domestic agencies.
  7. Establish international collaborative arrangements to enhance supervision and enforcement of crypto asset regulations.
  8. Monitor the impact of crypto assets on the stability of the international monetary system.
  9. Strengthen global cooperation to develop digital infrastructures and alternative solutions for cross-border payments and finance.

- And the Bank for International Settlement (BIS) issued guidelines on banks' treatment of crypto assets in recognition of the riskiness of some of these assets.

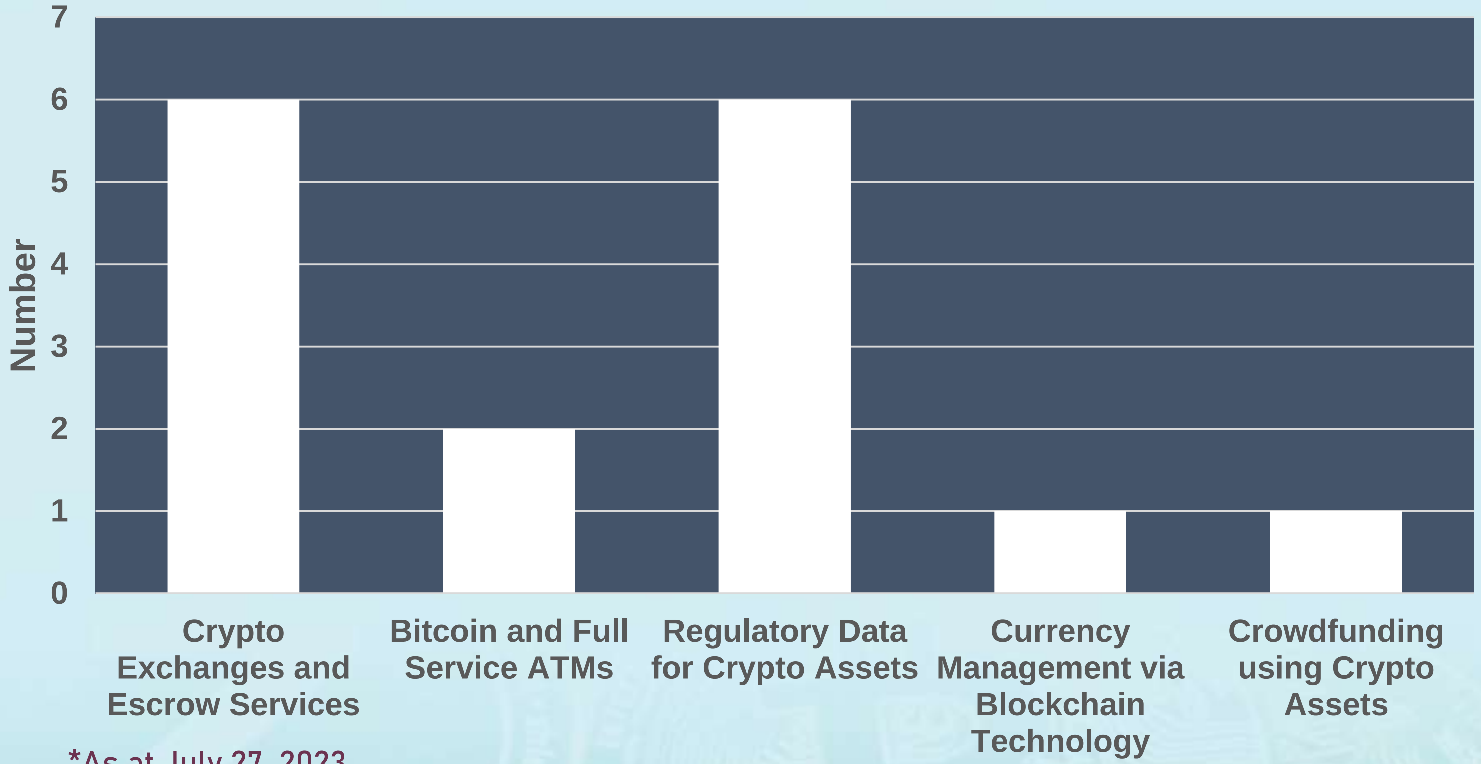
7. There is apparently growing interest and involvement in crypto assets in Trinidad and Tobago.

- Anecdotal evidence points to investment by individuals in crypto currencies:
  - Crypto websites recorded a significant number of hits from Trinidad and Tobago.
  - A few merchants are accepting crypto assets as payments.

- Some crypto mining is also taking place.

- Companies have expressed interest in setting up crypto exchanges, kiosks, ATMs and platforms.

Chart 3: Queries raised regarding crypto activity*



*As at July 27, 2023.

Source: Joint Regulatory Innovation Hub

8. The current domestic legislation does not treat frontally with crypto assets.

According to a recent IMF technical assistance mission (April 2023) commissioned by CBTT and TTSEC:

- Legal and regulatory uncertainty may be limiting the development of business models connected to crypto assets.

- 4 options for legislative reform were set out: 1) comprehensive legal reform; 2) targeted legal amendments followed by regulation; 3) regulations issued without legal changes; 4) the use of exemptions.

- The recommended approach was the adoption of targeted amendments to the Securities Act, followed by regulations.

- Some specifics: i) Crypto asset service providers and custodians should be licensed
  ii) AML/CFT rules should apply to all entities providing crypto asset services
  iii) Platforms need to be authorised
  iv) Regulations should be aligned with evolving international standards

9. Domestic regulators however, issued a joint warning statement on virtual assets in January 2019.

Joint Public Advisory on Virtual Currency

The Central Bank of Trinidad and Tobago, the Trinidad and Tobago Securities and Exchange Commission and the Financial Intelligence Unit of Trinidad and Tobago, (collectively referred to as “Regulatory Authorities” or “Authorities”) wish to advise members of the public who are investing in, or otherwise conducting transactions in virtual currencies, of the potential associated risks. While it is recognised that investing in virtual currencies can promise high returns and other benefits such as lower transaction costs and processing times, the Regulatory Authorities wish to advise members of the public of the following risks associated with their use:-

1. Virtual currency is a digital representation of value that can be digitally traded and functions as a medium of exchange within a specified online community, but does not have legal tender status in Trinidad and Tobago and in most other jurisdictions;
2. Providers of virtual currencies are neither regulated nor supervised by the Authorities at present and there are currently no legislative provisions under the Authorities’ purview that provide protection to consumers for losses arising from the use of virtual currencies. In addition, unregulated virtual currency companies may lack appropriate internal controls and may be more susceptible to fraud and theft than regulated financial institutions;
3. Transactions involving virtual currencies are subject to a high degree of anonymity. As such, there is potential for misuse of virtual currency to conduct criminal activity, including money laundering or terrorism financing; and
4. Virtual currencies tend to be volatile and their value can fluctuate significantly. The high volatility if virtual currencies may make the, unsuitable for most investors, especially those investing for long-term goals or retirement.

Further, the Authorities note with concern the emergence of schemes purported to be virtual currencies that promise high returns when members purchase tokens and recruit others to join/invest. We advise members of the public to be cautious of such schemes and conduct appropriate due diligence as these may be Ponzi[1] schemes in disguise.

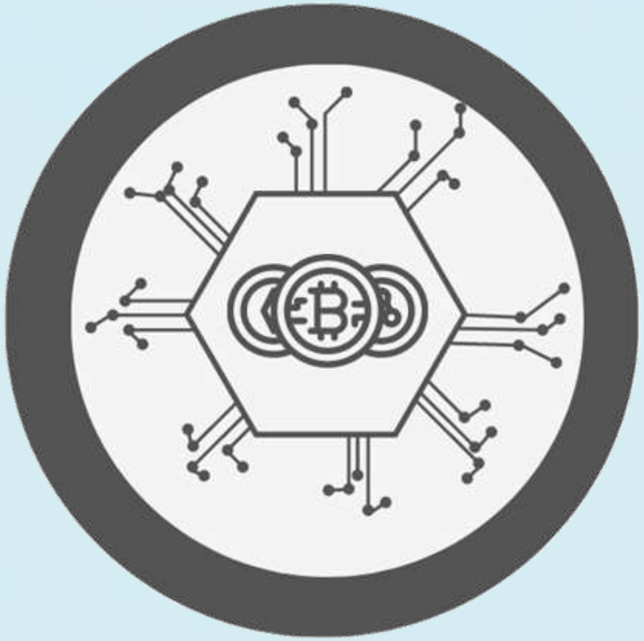
The Authorities shall continue to monitor activities involving the use of virtual currencies and advise the public accordingly.

1 A Ponzi scheme is a form of fraud which lures investors and pays profits to earlier investors by using funds obtained from more recent investors.

January 25, 2019

CENTRAL BANK OF TRINIDAD & TOBAGO

10. There is urgent need for legal and regulatory clarity.



- Clarity can help to promote fintech while offering investor protection.
- The range of international experiences offers the opportunity to tailor regulation to our circumstances (priorities, resources, scale etc.)
- An overall policy would deal with commitments in other areas such as AML/CFT.
- It will help to promote public education.

CENTRAL BANK OF TRINIDAD & TOBAGO

References

- Appendino, M., O. Bespalova, R. Bhattacharya, J. F. Clevy, N. Geng, T. Komatsuzaki, J. Lesniak et al. "Crypto Assets and CBDCs in Latin America and the Caribbean." IMF Working Paper 23/37, International Monetary Fund, Washington, DC, (2023). Accessed at https://www.imf.org/en/Publications/WP/Issues/2023/02/17/Crypto-Assets-and-CBDCs-in-Latin-America-and-the-Caribbean-Opportunities-and-Risks-529717
- Aquilina, Matteo, Jon Frost, and Andreas Schrimpf. "Addressing the Risks in Crypto: Laying out the Options." No. 66. Bank for International Settlements, (2023). Accessed at https://www.bis.org/publ/bisbull66.pdf
- Basel Committee on Banking Supervision. "Prudential Treatment of Crypto asset exposures." Bank for International Settlements, (2022). Accessed at https://www.bis.org/bcbs/publ/d545.pdf
- Central Bank of Trinidad and Tobago, TTSEC and FIU. "Joint Public Advisory on Virtual Currency." (2019). Accessed at Joint Public Statement December final outlined (central-bank.org.tt)
- Cornelli, Giulio, Sebastian Doerr, Jon Frost and Leonardo Gambacorta. "Crypto shocks and Retail Losses." No. 69. Bank for International Settlements, (2023). Accessed at https://www.bis.org/publ/bisbull69.pdf
- Financial Stability Board. "Statement on International Regulation and Supervision of Crypto Asset Activities." (2022). Accessed at https://www.fsb.org/wp-content/uploads/P110722.pdf
- ------ "Regulation, Supervision and Oversight of Crypto Asset Activities and Markets." (2022). Accessed at https://www.fsb.org/wp-content/uploads/P111022-3.pdf
- ------ "Global Regulatory Framework for Crypto Asset Activities Umbrella Public Note to Accompany Final Framework." (2023). https://www.fsb.org/wp-content/uploads/P170723-1.pdf
- International Monetary Fund. "Elements of Effective Policies for Crypto Assets." IMF Policy Paper (2023). Accessed at https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/23/Elements-of-Effective-Policies-for-Crypto-Assets-530092
- ------ "Trinidad and Tobago Technical Assistance on Fintech Regulation and Legislation." Forthcoming (2023).
- Narain, Aditya, Marina Moretti. "Regulating Crypto." Finance and Development, International Monetary Fund, (2022). Accessed at https://www.imf.org/en/Publications/fandd/issues/2022/09/Regulating-crypto-Narain-Moretti
- The Commonwealth. "Regulatory Guidance on Virtual Currencies." (2019)

Thank You

Connect with us Museum Auditorium

www.central-bank.org.tt; email: info@central-bank.org.tt