



Ministerial Statement
To the House of Assembly

by

The Hon. Wayne M. Caines JP, MP
Minister of National Security

Government Cryptocurrency Initiative

Friday 24th November, 2017

Mr. Speaker,

I rise today to advise Honourable Members of a new Government initiative in the area of Blockchain/Distributed Ledger Technology (DLT).

Mr. Speaker,

It is a well-known fact that as a result of financial technology (FinTech), technological innovation has been stimulated, financial markets and systems have become more efficient, and the use of FinTech has also improved the overall customer experience. FinTech ecosystems — composed of government, financial institutions, and entrepreneurs — have shown that they can energize the broader local economy by attracting talented, ambitious people and becoming a center of creative thinking and business activity. That is why this Government is working to create a FinTech industry in Bermuda that will provide economic diversification, bring new business to the island, help boost GDP and create meaningful jobs as well as help prepare our financial system and economy for the future.

Mr. Speaker,

As a result of developments in FinTech, this Government is well aware of the increased use globally of tokens or coins based on Distributed Ledger Technology (DLT) as a means of raising finance, especially by early-stage start-ups. As a matter of fact, the total value of funding raised, through tokens, to date in 2017 has outstripped the investments of traditional capital

markets.

Mr. Speaker,

The sale of tokens is often conducted using terms such as initial coin offering (ICO), token sale and initial token offering. The growth of this unregulated payment mechanism has led to heightened concerns about its usage, legality, accountability, and control and while there is much debate about the risks associated with these instruments. One thing is clear, this disruptive technology is here to stay.

Mr. Speaker,

Bermuda is committed to building upon its position as an innovative international business center and is initially considering a complementary regulatory framework covering the promotion and sale of utility tokens, aligned with the Distributed Ledger Technology framework.

While utility tokens vary widely in design and purpose, in many cases, tokens represent securities, such as shares in a company, and their promotion and sale need to be regulated as such. More often, utility tokens serve some cryptocurrency or functional use that is unregulated, such as prepayment for access to a product or service that is to be developed using the funds raised.

Because of the ambiguity of cryptocurrencies, this Government will develop a new regulatory framework for Distributed Ledger Technology which will become operational in early 2018. These regulations are intended to standardize the activities of firms, operating in or from Bermuda, that use Distributed Ledger Technology to store or transmit value belonging to others, such as virtual currency exchanges, coins and securitized tokens.

Therefore, anyone who intends to launch utility tokens from Bermuda will be advised to consider the following guidance; Bermuda-based Token Issuers must join and comply with code of conduct of the Bermuda Crypto Association, which includes measures to ensure enhanced business transparency, know your customer and anti-money laundering.

Mr. Speaker,

Given the continuous and rapid nature of this innovative technology and distributed financial system, I would like to inform members of this Honorable House that the government will craft an agile and effective means for regulation and compliance for Distributed Ledger Technology, as the Island has done for other industries, such as insurance, for decades.

A Task Force has been strategically created, under the direction of the Minister of National Security, to develop and implement a strategy that aids Bermuda in entering this exciting area.

The challenge will be in figuring out how Bermuda can set-up an industry that ensures cryptocurrencies are well-regulated, is a safe environment for cryptocurrency firms to grow, whilst also ensuring that this new regulatory environment protects both consumers and the reputation of the jurisdiction.

The Task Force is divided into two teams: a Business Development Working Group and a Legal and Regulatory Working Group. Members of the Task Force comprise Government technical officers, officers from the BDA, as well as legal and industry specialists in FinTech.

Mr. Speaker,

Immediate responsibilities for the Task Force include:

- Creating a Crypto Currency Association with a defined Code of Conduct and Rules of Operation. It is the aim for this group will be self-governing;
- The Bermuda Monetary Authority in conjunction with the Ministry of Finance will work together to draft a letter or document confirming Utility Tokens are not a security as long as there is no promise of future value. This will allow companies from all over the world to set up in Bermuda for Crowd Funding; and
- Most importantly, the Legal and Regulatory Working Group will provide confirmation that Utility Tokens are not prohibited or contravening any local legislation.

Mr. Speaker,

Up until now, one might have thought that Bermuda had not established itself in the FinTech industry. However, Mr. Speaker, start-up incubators have already been present on the Island such as the incorporation of two digital currency entities—e-sports company Unikrn Bermuda—and iCash, an online entertainment enterprise—in the past few months. Bermuda also saw the successful residency of Hub Culture’s digital currency-powered innovation campus at the Ariel Sands property this summer. Another company, Vaphr, founded by Aron Dutta, the former global head of blockchain at IBM and managing director at Cisco Systems, is in the process of incorporating its global platform on the Island.

Mr. Speaker,

We want the world to know that Bermuda is a significant option for cryptocurrency related businesses and that we are expeditiously developing cryptocurrency rules that ensures cryptocurrencies are well-regulated, is a safe environment for cryptocurrency firms to grow, whilst also ensuring that this new regulatory environment protects consumers and the reputation of this jurisdiction.

Thank you, Mr. Speaker.