EDCAB - European Digital Currency & Blockchain Technology Forum

European Parliament
Committee on Economic & Monetary Affairs

Public hearing on virtual currencies
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Statement of Siân Jones, founder, EDCAB

Chair, Mr von Weizsäcker, Honourable Members of Parliament, Ladies and Gentlemen,

Thank you for inviting me to address ECON today. My name is Siân Jones and I am founder of EDCAB - the European Digital Currency and Blockchain Technology Forum. We are an independent, public policy platform, based in Brussels, dedicated to providing information on virtual currencies and distributed ledger technology to EU policy-makers.

The first cryptocurrency, Bitcoin, started something as profoundly transformational as the Internet:

- at the same time, a currency and a payment system;
- a digital representation of value with its own built-in value transfer system;
- a form of digital cash that behaves a little like a commodity.

Recognised by the European Court of Justice as something *like money*, we can now pay for goods, services and assets, quickly and cheaply, without the need for intermediaries.

This experiment in democratised money has produced an underlying technology - blockchain - that delivers trust in an otherwise trustless realm. It has the ability to provide an incontrovertible single source of truth that cannot be altered or corrupted. It delivers a mechanism capable of:

- restoring trust in public and private sector institutions;
- facilitating trust within civil society;
- building trustworthy registries in developing nations; and
- ensuring more aid arrives at its intended destination.

The potential of this trust mechanism has not been missed by the public and private sectors. In government, finance, pharmaceuticals, media, arts, charities, and hundreds more sectors, organisations are looking at ways blockchain - or distributed ledger technology - can drive efficiencies, create value and build growth. Even regulators are looking at DLT as a way to improve their effectiveness.

Contrary to popular belief, the attribute enabling much of this technology is transparency. Ledger entries are present for every participant to see. Trust is achieved through a combination of openness and cryptography.

The perception that cryptocurrencies are anonymous is largely myth. The reality is they are pseudo-anonymous: not actually anonymous but having the appearance of being anonymous.

The corollary - that cryptocurrencies are mainly used to launder money - is grossly-overstated and unsubstantiated. The ability to trace past transactions render virtual currencies highly unsuitable for money laundering.

The best estimates of global money laundering according to UNODC and the Financial Action Task Force are around $1.6 trillion, or 2.7 per cent of global GDP, in 2009. This figure is consistent with the 2 to 5 per cent range previously established by the International Monetary Fund to estimate the scale of money-laundering. Compare this figure with the total dollar value of cryptocurrencies at around $7 billion.

The largest cryptocurrency, Bitcoin, accounts for over 90% of all cryptocurrencies. Detailed analysis of its blockchain - made possible by its inherent transparency allows us to deduce that virtual currencies account for something considerably less than 100,000th of 1% of global money laundering.

According to a recent Europol report, €500 notes account for 30% of the €1 trillion banknotes in circulation, despite not being a common means of payment. It would not take much to conclude that the Euro is at least 92 times more likely to be used in money laundering than virtual currencies.

The UK has perhaps undertaken the most work within the EU to gather evidence of the use of virtual currencies in money laundering. Its National Risk Assessment of Money Laundering and Terrorist Financing, published in October 2015, placed virtual currencies at the bottom of a list of 12 thematic risk areas after e-money, real estate agents and legal services providers. Banks came top of the list with a risk grading 14 times worse that of virtual currencies. It concluded that ‘the money laundering issues concerning digital currencies are similar to the issues identified with many other financial instruments, such as cash and e-money’ and that ‘digital currencies are currently not a method by which terrorists seem to raise or move money’.

The number of use cases for distributed ledger technology grow almost daily, from a broad range of financial services to collateral management, reference data, micropayments, trade credit, supply chains, identity, KYC, aid disbursement being just a few.

Enterprises around the world are looking at ways in which blockchains can be used to improve their businesses and customer experience. Over 40 global banks have joined together in one consortium alone. IBM and Microsoft are already providing distributed ledger services and the Linux Foundation has launched an open source blockchain project.

Central banks including the ECB, the Bank of England and the Fed are investigating the potential use of distributed ledger technology to provide digital fiat currency.

Governments are also actively pursuing the use of this technology in the delivery of e-government services to their citizens. Last week, the UK Government published a major 88-page report on the potential of blockchain.

In a 40-page IMF discussion note on virtual currencies, also published last week, its authors concluded: ‘New technologies [...] are driving transformational change in the global economy, including in how goods, services and assets are exchanged. An important development in this process has been the emergence of virtual currencies. [... which] offer many potential benefits, including greater speed and efficiency [...] and ultimately promoting financial inclusion. [...] Distributed ledger technology [...] offers potential benefits that go far beyond [virtual currencies] themselves.'

In ECON's careful deliberation on virtual currencies, I respectfully urge you:

1. to understand that virtual currencies are still in the experimental stage;
2. to recognise that the value of virtual currencies is still tiny compared with money supply;
3. to follow the ECB's recommendation, in its second report on virtual currencies, that there is no need to amend or expand current EU legal framework on virtual currencies; but that, if you are minded to propose legislative action, to limit such action to anti-money laundering and countering terrorist financing by following FATF's recommendation to target the gateways between virtual currencies and the regulated financial system, and not regulate users who obtain virtual currencies to purchase goods or services; and, finally,
4. to encourage and support the development of this innovative transformational technology within Europe's Digital Agenda, allowing the 'Internet of Trust' to flourish and bring positive improvement to Europe's economy and citizens.

Thank you for your attention.