FPP Virtual Session – April 2018

Bitcoin Buzz: Separating Fact from Fantasy About Virtual Currencies and the Technology Behind Them

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Who/What is FPP?

“Providing pathways to economic security through a statewide coalition of organizations”
A Thank You to FPP’s Funders
FPP 2018 Annual Training Conference

Registration available at

www.FPPConference.com
Our Guest Expert

Christina Tetreault
Senior Staff Attorney,
Consumers Union
Learning Goals

- Understand what Virtual Currencies are
- Learn more about non-financial services uses for the underlying technology
- Grasp consumer risks
- Appreciate how to mitigate potential consumer harm
Some Helpful Terms

- Virtual Currency = Cryptocurrency (interchangeable)
- **Bitcoin** is a Virtual Currency
- Virtual Currency transactions are recorded in blocks; the record of these transactions is a **Blockchain**
- A Blockchain is a shared ledger; it can be public or private
- Blockchain technology is also known as **Distributed Ledger Technology**
Examples of Virtual Currencies

- Bitcoin
- Ethereum
- Litecoin
- Stellar
- XRP
- Zcash
Some Consider Virtual Currencies Money . . .

For example, Bitcoin is accepted by some retailers . . .
Virtual Currencies are a kind of electronic money.

That means when you buy a Virtual Currency, you don’t get an actual coin or bill that you can hold in your hands. Instead, you receive electronic units that many people may agree to accept and treat like dollars, euros, or other forms of money.

But Virtual Currencies aren’t regular money.

To begin with, Virtual Currencies are not issued or backed by the United States or any other government or central bank.

No one is required to accept them as payment or to exchange them for traditional currencies.

For federal tax purposes, Virtual Currency is treated as property.

General tax principles applicable to property transactions apply to transactions using virtual currency.

CFTC Says: Virtual Currencies are Commodities

- Some consider Virtual Currencies as having inherent value, such as gold or another commodity
- The Commodity Futures Trading Commission (CFTC) also considers Virtual Currencies commodities:

“Bitcoin and other virtual currencies have been determined to be commodities under the Commodity Exchange Act (CEA). The Commission primarily regulates commodity derivatives contracts that are based on underlying commodities. While its regulatory oversight authority over commodity cash markets is limited, the CFTC maintains general anti-fraud and manipulation enforcement authority over virtual currency cash markets as a commodity in interstate commerce.”

([https://www.cftc.gov/PressRoom/PressReleases/pr7665-17](https://www.cftc.gov/PressRoom/PressReleases/pr7665-17))
Virtual Currencies in the form of tokens or coins may be issued by companies as a way of raising money.

In March, the Securities and Exchange Commission required trading platforms for Virtual Currency securities to register with the SEC.


How to Acquire Virtual Currencies

- Buy through an exchange
- Purchase via mobile wallet
- Initial coin offering (ICO)
- Mine
  - earn Virtual Currency as a reward for processing transactions*

*Mining is done via computers and uses a great deal of energy
Mining Example . . .
Technology Behind Virtual Currency Has Many Uses*

- Some hope that Distributed Ledger Technology will replace legacy banking and payments systems, but the uses go far beyond financial services.
- The networks that process Virtual Currency transactions create records of all transactions.
- The technology can be used to create public or private ledgers.
- These ledgers can be used to record just about anything, such as:
  - recording property ownership
  - tracking items through a supply chain
  - keeping healthcare records

*beyond being money or property or commodities or securities*
Could Virtual Currencies Increase Financial Inclusion?

- No bank required (can transact directly)
- Potentially lower transaction costs (not currently true)

From an International Monetary Fund report:

“VC [Virtual Currency] schemes and Distributed Ledger Technologies can strengthen financial efficiency by facilitating peer-to-peer exchange while reducing transaction times and costs, especially across borders. In the longer term, these technologies have the potential to deepen financial inclusion by offering secure and lower-cost payments options.”

The Impact on Financial Inclusion

Because of the Promise of the Technology, Some Are Already Pitching Their Businesses as Helpful

**Access Network to Launch a Decentralized System for Financial Access Dedicated to the Underserved**

On the heels of Davos, the financially excluded will now have control of their own system for financial access.

February 01, 2018 09:30 AM Eastern Standard Time

NEW YORK—(BUSINESS WIRE)—The Access Network, an incentivized token economy governed by its participants, announced its upcoming launch today. Access Network (ACX Network) is created by the visionary blockchain startup Atlas Money, a fast growing P2P banking platform in West Africa with more than 300 agents and nearly 20,000 users who have already banked over $1.5M. Co-founded by a Techstars Alum and Peter Thiel fellow, Atlas has raised over $3.2M and is backed by notable investors such as Tim Draper, 1517 Fund, MITS Fund, and Partech Ventures.

“The rate of development in Africa must dramatically increase, and it is about time that Africans have a say in what that looks like, instead of others telling us what we need to be doing.”

“...Two billion adults are unbanked all the time, but this problem actually affects over six billion people. Financial access is the key to unlocking economic development and they are currently denied that fundamental right,” said Mickey Costa, CEO of Atlas Money. “Blockchain technology has the potential to transform the underserved into the leaders of the decentralized financial movement. Currently, they are unable to realize this because of lack of access to local liquidity outlets.”

By integrating with Atlas Money after launch, ACX Network will be able to leverage an existing infrastructure to enable real-world liquidity and participation. Atlas Agents collect deposits, issue withdrawals and
The Impact on Financial Inclusion

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Consumer Risks of Virtual Currencies

- Transactions are irreversible
- Scams and fraud are rampant
- Hacking is a high risk
- The dollar value (exchange rate) of Virtual Currencies is volatile and could go to zero
- Transaction costs may be unclear
- A technical mishap can leave you without access to your money/security/property
- There is no federal deposit insurance
- There are no error resolution rights or limits on losses under law
INVESTOR ALERT

Ponzi Schemes Using Virtual Currencies

The SEC's Office of Investor Education and Advocacy is issuing this investor alert to warn individual investors about fraudulent investment schemes that may involve Bitcoin and other virtual currencies.

Ponzi Schemes Generally

A ponzi scheme is an investment scam that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme operators often solicit new investors by promising to...

Look Out for Potential Scams Using Virtual Currency

Virtual currencies, such as Bitcoin, have recently become popular and are intended to serve as a type of money. They may be traded on online exchanges for conventional currencies, including the U.S. dollar, or used to purchase goods or services, usually online.

We are concerned that the rising use of virtual currencies

FLORIDA PROSPERITY PARTNERSHIP
Thieves stole potentially millions of dollars in bitcoin in a hacking attack on a cryptocurrency company

Becky Peterson  
Dec. 6, 2017, 6:40 PM  
38,219

The Ether Thief

BY MATTHEW LEISING  
JUNE 13, 2017

A year ago a hacker stole $55 million of a virtual currency known as ether. This is the story of the bold attempt to rewrite that history.
Volatility

$377.80
ETHEREUM PRICE

$435.73
SINCE LAST MONTH (USD)

-53.56%
SINCE LAST MONTH (%)
Unclear Costs

BitInfoCharts / Bitcoin / Avg. Transaction Fee chart

Bitcoin Avg. Transaction Fee historical chart

Average transaction fee, USD

2018/04/04:
Bitcoin - Avg. Transaction Fee: 0.951

FLORIDA PROSPERITY PARTNERSHIP
‘I FORGOT MY PIN’: AN EPIC TALE OF LOSING $30,000 IN BITCOIN
No protections under federal payments law
+
little or no oversight of consumer-facing businesses in some states
=
you are on your own
Concerns about cryptocurrencies are largely not technology-specific, so measures to protect consumers are not about regulating technology.

Policy makers should look at the financial products and services that are being built on top of the technology and the risks that consumers may face, and use that lens to craft policy solutions.

States looking to regulate virtual currency exchanges under money transmitter laws should look to the Conference of State Bank Supervisors Model Framework for Virtual Currency regulation.
What You Can Do Today . . .

- Don’t buy the hype: if it sounds too good to be true, it is
- Use the CFPB complaint database to review Virtual Currency complaints
- Use caution when it comes to buying Virtual Currencies
- Use extreme caution when considering an initial coin offering
- Do not put in any more than you can afford to lose
- Share these warnings
Additional Resources

- **Consumer Financial Protection Bureau** consumer advisory:
  

- **Conference of State Bank Supervisors Model Regulatory Framework**:
  

- **Securities and Exchange Commission** initial coin offering information:
  
  https://www.sec.gov/ICO
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