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Opportunities and risks associated with the advent of
Digital currency in the Caribbean
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**REPORT OF THE EXPERT GROUP MEETING ON
OPPORTUNITIES AND RISKS ASSOCIATED WITH THE ADVENT OF
DIGITAL CURRENCY IN THE CARIBBEAN**

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A. CONCLUSIONS AND RECOMMENDATIONS

1. The following conclusions and recommendations were adopted:

(a) The input provided from participants at this expert group meeting will be considered and factored into the survey instrument to be submitted to Caribbean Central Banks in mid-December 2014. Together, the outcomes from this survey and recommendations from the expert group meeting on opportunities and risks, associated with the advent of digital currency in the Caribbean will be used to formalize a study on the topic.

(b) It was noted that there is a need for better payment systems within the Caribbean region, and that the high costs and red-tape associated with providing electronic payment options, are significant challenges to those wishing to establish e-commerce businesses in the region. The region also needs to lower the cost of remittance services. Digital currencies represent a potential option for improving services and reducing costs, but are challenged in receiving acceptance among consumers and regulators.

(c) It was widely agreed that the facilitation of discussion between regulators and representatives of the digital currency industry represents an important opportunity for the exchange of ideas and concerns. This type of engagement is a valuable step in the eventual development of a viable framework for the regulation of digital currencies at a national level within the region. It was proposed that the creation of a regional interest group for the industry would be useful in providing a point of contact between industry representatives and regulators in the region.

(d) The digital currency vendors present at the meeting expressed concern that the digital exchange of cryptocurrencies in user-to-user transactions should not be regulated, and indicated that doing so could prove to be prohibitively difficult at a technical level. However, it was broadly agreed that the exchange between digital currencies and national currencies represents a more feasible point at which regulation could be enforced, as is being proposed in the United States and Canada, for example. It remained undetermined whether this limited scope of regulation would leave sufficient room for regulators to meet their obligation to protect national interests in consumer protection, the enforcement of tax collection, and the prevention of money laundering and terrorist financing. It was pointed out that there are some self-regulating aspects to digital currencies that may be of service to regulators, in the development of administrative procedures and law enforcement practices to manage these concerns.

(e) It was recognized that the participants in the digital currency industry can benefit from the timely establishment of national regulations, if only to make it clear what the rules are in terms of operating in various countries. Additionally, regulation can be valuable in terms of promoting public acceptance of these new payment technologies, by enforcing consumer protection measures that would encourage broader trust in these systems. There is also need to increase trust at an institutional level, for example, to establish credibility with banks who currently avoid doing business with digital currency and mobile money vendors, due to concerns that they may run afoul of anti-money laundering regulations.

B. ATTENDANCE AND ORGANIZATION OF WORK

1. Place and date

2. The expert group meeting, Opportunities and risks associated with the advent of digital currency in the Caribbean, was convened by ECLAC subregional headquarters for the Caribbean, on 3 December 2014 in Port of Spain. Online participation was also utilised.

2. Attendance

3. The meeting was attended by representatives from the Government, the Central Bank of Trinidad and Tobago, anti money laundering institutions, digital currency vendors, e-commerce vendors, and Caribbean Association of National Telecommunications Organizations (CANTO). A complete list of attendees is annexed to this report.

3. Agenda

4. The meeting adopted the following agenda:

1. Opening of the meeting
2. Introductions, experiences, exposure and work with digital currencies
3. The current state of electronic payment and mobile money solutions in the region
4. Opportunities which digital currencies may present
5. Risks which digital currencies may present
6. Possible policy options
7. Conclusions and recommendations

C. SUMMARY OF PROCEEDINGS

1. Opening of meeting

5. Dillon Alleyne, acting Deputy Chief of the ECLAC subregional headquarters for the Caribbean opened the meeting. He explained the importance of exploring the potential effects that the wave of digital currencies will have on the Caribbean, as well as, the need to identify policy options for the region. He indicated that digital currencies represent an opportunity to reduce transaction costs, but that a number of issues are raised by the advent of this technology. These areas include tax evasion, money laundering and terrorism financing, price volatility, concern over hacking, and whether digital currencies will be a parallel or complementary to existing monetary systems. He indicated that the meeting represented an opportunity to better understand digital currencies and elucidate expected trends, and stated the information gathered would be used to provide background to a study on the topic that would be used to inform governments and central banks on the merits of prospective policy options.

2. **Introductions, experiences, exposure and work with digital currencies**

6. In an effort to engage the participants in the discussions they were encouraged to share their interests and experiences in digital currencies. Many applauded the technology as an avenue that would facilitate alternative transactions for remittance; open opportunities for Small and Medium Enterprises to penetrate the global market; an effective trading tool for both business people and consumers alike. One participant felt that the region was ready to embrace this industry as it fostered a high level of entrepreneurship; that despite the small economies of scale, digital currencies had the potential to change the landscape of business in the Caribbean. Other participants addressed the other side of the issue: the risks; the need for legislation to guide and shape the way in which digital currencies were utilised. It was noted that security would always be an issue with regards to money and finances and therefore would need careful monitoring.

3. **The current state of electronic payment and mobile money solutions in the region**

7. As moderator, the Consultant introduced, as the first topic to be examined, a review of the current landscape in the Caribbean region with regard to payment solutions and ecommerce. The discussion began with an account from the Chief Executive Officer (CEO) of TriniTrolley, an e-commerce business, on the various challenges that companies like his faced in enabling acceptance of digital payments. These included lack of e-commerce-supporting legislation, lack of consumer education and trust on the system, lack of technical capability, and difficulty working with local banks. He stated that his company had worked around payment acceptance issues by, among other things, adopting cash-on-delivery payment methods and third party payment tools, such as PayPal.

8. The participants noted that some banks have created options to facilitate online payments; however, red tape and lack of legislation to protect against fraud continue to hamper the development of the system. Besides being a lengthy process, there are numerous fees attached, such as an upfront fee to activate the account, monthly fees, percentage per transaction, and inspection of facilities. Therefore, current conditions also hinder access of micro, small and medium- sized enterprises to online payments, driving them to resort to risky mechanisms, such as accepting credit card information over insecure web forms.

9. During the discussions it was highlighted that e-payment legislation was rather scant. The example of Trinidad and Tobago was noted, where legislation in that country is relatively new, and is primarily focused on electronic payments with regard to government systems. Furthermore, e-commerce legislation had not been fully proclaimed and therefore was not a viable support system at that time.

10. The meeting then explored in-depth, the status of “mobile money” e-payment solutions. It was noted that, among countries in the region, Haiti had gone the farthest toward embracing such a system – although even there, the technology had achieved only a moderate level of assimilation. Participants acknowledged, however, that Haiti presented a unique situation given that it was still recovering and seeking normalcy of function in the aftermath of a natural disaster. It was also suggested that the limitations of the formal banking system in Haiti and the geographical disbursement of its population contributed to the relative success of mobile money in that country.

4. **Opportunities which digital currencies may present**

11. The discussion on opportunities that digital currencies could represent for the region was led by the CEO of Coinapult. He gave a short presentation on the Bitcoin, by far the most popular of the cryptocurrencies. He noted specific opportunities as regards the widespread use of mobile-phones in the

region, and indicated that the technology was well-suited to facilitate financial payments or transactions through means, such as cellular Short Message Service (SMS) messages.

12. The conversation segued into the use of cryptography-based blockchain technology, on which Bitcoin is based, in enabling the transfer of property or other non-currency goods. The CEO of Coinapult explained that the technology, at its core, was a ledger that had generally been used to transfer the title of ownership to units of digital currency, but which could also facilitate the transfer of titles to, for example, securities, houses, or cars. However, it was recognized that while the technology makes this possible, there was currently no legal recognition of this method of title transfer. He said that this represented an opportunity for a Government jurisdiction to attract investment by becoming the first to legally recognize this type of title transfer.

13. The advantages of digital currencies for use in remittances were discussed. It was noted that this not only included remittances from countries outside the region, but intra-regional remittances as well. A specific case was noted by the Founder and Chief Executive Officer of Domus Semo Sancus, a software development firm. He noted that Turks and Caicos was home to a large immigrant population with a high demand for remittance services, but the potential popularity of transfer of funds via mobile phone was hindered through the imposition of a 12 per cent Value Added Tax (VAT).

14. The Executive Vice President of Special Projects of CoinOutlet, Inc. noted that the transaction costs of Bitcoin were far lower than traditional remittance services. She said that her company's Bitcoin Automatic Teller Machines (ATMs), currently in beta testing, would enable money that had been transferred across borders via Bitcoin to be withdrawn as local currency. Another participant in the meeting expressed reservation over whether this would really entail a significant reduction in costs, as she felt that transfer costs would not be as competitive after the cost of compliance with regulations had been accounted for. These regulations may include measures for consumer protection and to prevent money laundering and terrorist financing. In response, she noted that every state had different rules and regulations that would add cost to the process, but she felt confident that the cost would not be insurmountable.

15. As regards regulation, the Co-founder of Bitt added that Bitcoin was in large part, a self-regulating system, with features built into the protocol that provide a significant degree of consumer protection, and a high degree of traceability. He also noted that it would be very difficult to regulate crypto-to-crypto transactions, as these exist at something of an extra-national level and are not orchestrated by any central authority. The Bitcoin vendors shared concerns that overregulation of the industry could be counterproductive and would limit the exchanges, but pointed to Bitcoin-to-local-currency transactions, as a point of intervention where national regulations could be effectively implemented.

5. **Risks which digital currencies may present**

16. The discussion on the risks presented by digital currencies was introduced by the Head of Legal Services of the Trinidad and Tobago, Ministry of Science and Technology. From a legal and regulatory perspective, she shared that it is important to provide adequate user protection in the system of digital currencies. She suggested that there was need for greater understanding of digital currencies, such as Bitcoin in the Caribbean. In addition, she stated that while there have been a number of emerging technologies that have supported the development of digital currencies and allowed them to gain more traction, this has been accompanied by the parallel administrative and legal processes that support those innovations. For that reason, she argued, advocacy on Bitcoin should be followed by the development of institutional frameworks, such as legal, regulatory and administrative procedures on the national level. She further noted that as digital currencies involve transnational transactions, there was need also to

address taxation issues. She also highlighted that Caribbean frameworks such as the regime for taxation and international trade treaties must be taken into consideration. The monetary and financial stability issues to consider include regional rates of exchange and the use of currency as regulated by Central Banks.

17. The Deputy Inspector of Financial Institutions, Policy and Market Conduct at the Central Bank of Trinidad and Tobago, indicated that the area of money laundering and terrorist financing was an area of concern, and shared that the government of Trinidad and Tobago is currently amending legislation relating to these areas. Noting the case of Silk Road as an example, she expressed concern that Bitcoin has been used for illicit purposes, including the drug trade, child pornography and human trafficking. She agreed that there needs to be a greater understanding of the issues and risks that surround digital currencies, including macroeconomic issues, which must be all examined carefully. She stated that the three authorities in her country that are currently reviewing such issues, are the Central Bank of Trinidad and Tobago (CBTT), the Securities Exchange Commission (SEC) and the Financial Intelligence Unit (FIU).

18. The Special Advisor on Anti-Money Laundering at the Central Bank of Trinidad and Tobago, noted problems with the technology from a consumer protection perspective. She shared that the technology itself is susceptible to certain threats, and that with the absence of legislation, consumers are at a disadvantage. The representative from Bitt, expressed the view that Bitcoin is secure, and also noted that its decentralised ledger can be used to trace payments, which is a feature that would be useful in both the reduction of consumer risk, and prevention of money laundering. The representative from the Ministry of Science and Technology of Trinidad and Tobago stated that no system is undefeatable, particularly with regard to financial transactions. She emphasized that breaches in the system result in a loss of consumer confidence; hence the need to continuously improve security standards. The Consultant stated that the industry is responsible for consumer protection, and this protection should be compliant with known standards.

19. With regard to managing the risk of money laundering, the Co-founder of Bitt noted that companies working in the digital currency field were being proactive with regard to meeting anticipated regulations. Companies, such as Bitt, are engaging third party auditors to provide authentication of users and monitor them against lists of known bad actors. These systems provide a similar function to the “Know Your Customer” (KYC) regulations required of the banking system. The Consultant noted that this third party-based user monitoring had the potential to be utilized in the prevention of money laundering, but added that there would need to be some type of legal framework and verification system surrounding third-party KYC auditors.

20. Viewed from a macroeconomic perspective, the acting Deputy Chief of ECLAC suggested that the recent economic crisis, demonstrated how easily the transmission of economic impacts to different jurisdictions occurred. He shared that the issue of global governance must be considered and that larger global challenges would impact small and medium enterprises in the Caribbean. He stated that the impact of digital currencies on the real economy ought to be considered.

6. Possible policy options

21. The discussion on potential policy options was initiated by Deputy Inspector of Financial Institutions, Policy and Market Conduct of the Central Bank of Trinidad and Tobago. She commended ECLAC for convening the expert group meeting, citing the need for such a forum, in light of the divergent views and roles of regulators and those of technical persons. She further noted that while the role of Central Bank was to identify and contain risks, the bank’s existing legislative framework covered e-money but did not extend to include digital currencies. She observed that there had been a myriad of

international developments related to Bitcoin, and, as such, developing appropriate policy should be a priority. She recognized that there are some major concerns with respect to Anti-Money Laundering (AML) risks and consumer protection. She indicated that the Central Bank did not have a policy position but is considering the related issues. In particular, she noted that the national community is examining the potential impacts of digital currencies with a view to developing a national policy in the near future. She supported the calls for greater awareness in the building of digital currencies, and stated that the bank was expected to issue information that would assist with sensitization and public education in that area. However, in the interim, AML legislation that currently governs national institutions would apply for digital currencies. She also stated that the law requires organizations to consult with the Central Bank for approval to launch products related to digital currencies.

22. In outlining his expectations with respect to policies on digital currencies, the Co-founder of Bitt, reflected on his experience as a vendor and spoke to the resistance that had been encountered with digital currencies in the region. He proposed that an ideal starting point would be identifying the jurisdictions in which vendors can operate properly. Based on his experience, he restated that it was important for regulators to take a clear stance on the matter. He emphasized that the role of regulators should go beyond the passing of legislation and, in that regard, encouraged them to remain abreast by reading articles on new developments and engaging with industry participants. He cited, in particular, the presentation by Andreas Antonopoulos to the Canadian Senate¹ on the topic of Bitcoin, and recommended that regulators review that presentation. He underscored the need by the private sector for a discussion with regulators on their operations so as to determine their operational framework.

23. In response to the comments on the need for regulators to keep well informed on industry developments, the Head of Legal Services, Ministry of Science and Technology of Trinidad and Tobago, gave the assurance that regulators recognized the gravity of thorough research and kept abreast of developments on existing literature and publications. For that reason, the ministry employed an inter-ministerial and multi-committee approach and is considering all technical, legislative and financial issues before taking a decision.

24. The acting Deputy Chief of ECLAC noted that the Caribbean economies rank low in the World Bank ease of doing business index, and that presented a problem for potential investors. He suggested that an amalgam of interest may be the best solution for stimulating interest and lobbying for greater support; hence, a strategic position can be to form a lobby group. He suggested that if Caribbean digital currency vendors could collectively make their needs known to regulators, and provide regulators with a formalized means of interfacing with the vendor community, then the two groups would be better equipped to move forward in cooperating on the development of well-devised regulations for the digital currency industry.

25. In weighing on the discussion, the CEO of Coinapult noted that the future of the industry was unpredictable and reiterated that education was critical to understand the capabilities of the system. He suggested that uncertainty regarding the direction that evolution of the technology would take in the medium term, was an important factor that has impacted the development of effective policies. He likened the slow pace of policy development for digital currencies to that experienced with the Internet - 30 years have passed since the development and widespread introduction of that technology and legislation is only now being introduced. He suggested that the proliferation of Bitcoin across the region required the development of rules in the short term, as consumers would continue use the technology even while industry players await guidance.

¹ <https://www.youtube.com/watch?v=xUNGFZDO8mM>

26. The Executive Vice President of Special Projects from CoinOutlet stated the need for policy options to increase the adoption of products in the region. She underscored that legal clarity was key and needed to answer questions regarding the legality and personality of Bitcoin; whether they ought to be described as currency or property. She pointed to recent efforts to devise a definition for BitLicenses in New York, which may provide a facility for licensees or merchants accepting bit coins to sign up for a special license.

27. Some of the vendors in attendance expressed their concerns regarding the lack of support received by traditional banks for participants in the digital currency industry. They noted that, even for something as simple as a bank account, many banks will refuse to provide services due to concerns about money laundering. Though some smaller banks are willing to work with participants in this industry, vendors are experiencing difficulty in obtaining traditional financial services. This is a stumbling block to the broader acceptance of digital currency-based solutions in the region. They noted that this was a situation where regulations may be helpful to the industry, by providing banks with reassurance that digital currency vendors are legitimately working within the bounds of the law.

7. Conclusions and recommendations

28. The Chief of the Caribbean Knowledge Management Centre, ECLAC, noted that contributions of the experts on issues pertaining to e-commerce, mobile money, remittances, research, digital currencies, opportunities, risks and policies, will be considered and incorporated into the survey instrument and submitted to the Caribbean Central Banks by mid December 2014. The study will also incorporate the outcomes from the expert group meeting and responses from the Central Banks.

29. The Consultant thanked all participants for their contributions in their fields of e-commerce, regulation, legislation, and vendor solutions, noting that all sides' concerns had been heard.

8. Closing remarks

30. The acting Deputy Chief of ECLAC, thanked all of the participants for attending the meeting and expressed his appreciation on behalf of the organization for their contributions to the discussions that would richly enhance the study.

Annex**LIST OF PARTICIPANTS**

Gabriel Abed, Co-founder, Bitt, Bridgetown, Barbados.

Mazuree Ali, Chief Executive Officer, TriniTrolley, Port of Spain, Trinidad and Tobago.

Shiva Bissessar, Consultant, Port of Spain, Trinidad and Tobago.

Nigel Chinapoo, Chairman, EBITT Committee, Port of Spain, Trinidad and Tobago.

Michelle Francis-Pantor, Deputy Inspector of Financial Institutions, Policy and Market Conduct, Central Bank of Trinidad and Tobago, Port of Spain, Trinidad and Tobago.

Swarzette John, Manager Ag., Officer of the Prime Minister, Port of Spain, Trinidad and Tobago.

Vashti Maharaj, Head, Legal Services, Ministry of Science and Technology, Port of Spain, Trinidad and Tobago.

Ira Miller, Chief Executive Officer, Coinapult, Punta Pacifica, Panama.

Dr. Dorian M. Noel, Lecturer in Finance, the University of the West Indies, Saint Augustine, Trinidad and Tobago.

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Nadira Rahamatula Rajack, Specialist Advisor (Anti-Money Laundering), Central Bank of Trinidad and Tobago, Port of Spain, Trinidad and Tobago.

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Rohan Smith, Software Developer, Port of Spain, Trinidad and Tobago.

Adella Toulon-Foerster, LLB, LLM, Executive Vice President of Special Projects, CoinOutlet Inc., Dominican Republic.

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