The global challenges and opportunities created, by the cryptocurrency and blockchain revolutions

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The 'flash in the pan' label often attached to cryptocurrencies and blockchain applications appears to have all but run its course. Both are now real, seemingly permanent and, for many observers, representative of the new world order of financial activity. Comparisons with the advent of the steam engine and the internet in terms of game-changing qualities are commonplace when talking about this digital revolution.

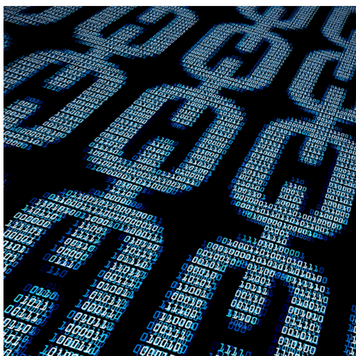
If we accept this position we must meet its challenges head on and relish the opportunities it creates, especially in the professional services industry. In days gone by, domestic businesses became international corporations by gradually breaking through frontiers. In contrast, cryptocurrency and blockchain initiatives are, by their very nature, instantly global. In this space the provision of advisory and support services needs global cooperation like never before and for the professionals to get up to speed, then ahead of the game, quickly.

Arguably the first challenge is around accounting consistency since international standards are not yet established when it comes to digital assets. This is perhaps unsurprising given the vast array of structures that have been, and will be, developed. The opportunity for international accounting firms and networks is to be front and centre in driving the agenda for acceptable standards and, in the meantime, confer internally as to global best practice in their own firms.

Regulatory challenges abound too, particularly when it comes to the principal capital raising mechanism for digital assets - the Initial Coin Offering or 'ICO'. Some regulators, like in China, refuse to acknowledge ICOs whilst others, like in the United States, focus regulatory attention on the nature of the 'coin' being offered - is it a security or simply a store of value? The SEC in the US seeks to apply a specific analysis - the Howey test - to determine this but, even then, the final position is not always cut and dried. Other regulators around the world are wrestling with same problem.

Aside from the categorisation of assets, compliance with international know your customer, anti-money laundering and countering terrorist financing standards is a vexing matter for international regulators. There are some jurisdictions that have taken this onboard already - the Isle of Man, for example, has primary legislation in place that applies the same KYC, AML and CFT standards to cryptocurrency businesses as to any other form of financial services. This is not putting ICO's off at all, in fact Optimus (and the Isle of Man generally) is seeing unprecedent levels of activity in digital asset creation on the back of this perceived stamp of quality. A modern, flexible legal system for commercial activity and a robust regulatory approach, like in the Isle of Man, is seemingly a popular choice for digital asset entrepreneurs.

Then we come to tax and, here, it might be best to illustrate the issues by looking at the most popular and well-documented of all cryptocurrencies - Bitcoin. You can no longer avoid the daily storylines covering Bitcoin's meteoric rise in value (accompanied by constant speculation that it is due a crash any day soon). Tax authorities around the globe will be scratching their heads as to how to treat these gains (or losses), in particular trying to determine what motivated a move into Bitcoin in the first place - a speculative gamble, a search for a store of value or a commodity investment in



Instantly global industry

Robust regulatory systems

anticipation of gain? Also, its not just the money that has been made on Bitcoin that will interest them but also the money made in Bitcoin because you can earn it too, especially if you have the knowledge and technology to be part of the Bitcoin ‘mining’ community. There are so many variables which are crying out for collaborative knowledge across jurisdictions.

Risk management is an area which generates interesting debate in the digital currency world and, particularly, in respect of the blockchain technology that underpins it. On the one hand, it is widely heralded that a blockchain is unbreakable and immutable which should, if that is the case, allay fears in respect of the latest risk management headache - cybercrime. On the other hand, the ability to transact anonymously without intermediaries creates an entirely new risk management conundrum to be addressed. Advice in this area will be increasingly complex, there is no doubt.

Many of the world’s largest banks, whilst keeping a wary distance from cryptocurrencies, are investing heavily in assessing blockchain opportunities. If they move in this direction, businesses and individuals will follow and the people that advise them will have to be ready with answers across the world.

A rich seam of opportunity for a global network?

Kerry Jones - Senior Manager
kerry@ofl.co.im