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General

The Commission has a policy of encouraging innovation through initiatives such as our Innovation Soundbox, which offers a supportive environment where existing or future licencees can come and discuss ideas, innovations or future applications with our authorisations or supervisory experts.

Globally, one specific area of innovation within financial services has been the increasing use of virtual, or crypto, currencies including in the development of Initial Coin Offerings ("ICO"), where an individual receives a token or coin in exchange for an investment into a company or alternative vehicle.

Whilst the Commission has already worked with firms using the underlying technology of these currencies, i.e. Blockchain, in common with other regulators around the world, the Commission believes there are significant risks in the use of virtual or crypto currencies especially for retail customers. Nevertheless, we understand that professional investors with a high risk appetite may wish to invest in this developing sector.

Virtual or crypto currencies could interact with our regulatory laws in a number of ways and therefore any application would need to be assessed on its individual merits. We will assess any application by the same criteria we use for other asset types or structures, which means we would look to ensure that key controls are appropriate - for example around custody, liquidity, valuation of assets and investor information.

Our current Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing already permits the use of technology for customer due diligence and we would expect any applicant to demonstrate to us how it plans to comply within the Bailiwick's current laws and rules, especially when establishing the identify of investors and beneficial owners.

Due to the significant risk of fraud and/or money laundering, we would be cautious about approving applications for ICOs which could then be traded on a secondary market. We would also be cautious about the establishment of a digital currency exchange within the Bailiwick.

We continue to encourage firms or individuals to use our Innovation Soundbox to discuss potential applications and to meet with our Authorisations team at an early stage so we can help them understand what our key questions are likely to be when they make a formal application.