



## The Wonderful Truth about the Isle of Man's Burgeoning Bitcoin Business

### Introduction

The Isle of Man is a successful self-governing international financial centre which is independent of the UK. We already have a substantial eGaming sector but over the last few months our Government together with local professionals such as ourselves have been successfully promoting a vibrant Cryptocurrency sector on the Island. Recent headlines have described the Island as a 'Crypto Haven', 'Bitcoin Valhalla', and a 'Safehaven for Bitcoin'.

This short summary explains the Isle of Man regulatory environment for Bitcoin business and is designed to equip crypto-currency businesses to properly consider the question of locating in the Isle of Man.

### Why Aren't Bitcoin exchanges regulated in the Isle of Man?

The regulatory position of crypto-currency exchanges under legislation in the Isle of Man is an interesting one. Isle of Man financial services regulations don't currently apply to such exchanges and our Government has confirmed that, at present, there are no plans to change this.

Financial Services in the Isle of Man are governed by the [Financial Services Act 2008](#). Acting as a currency exchange is specified in schedule 1 of the [Regulated Activities Order 2011](#) as a licensable activity under class 8 and "Arranging deals in investments" is licensable under Class 2 as Investment business.

However the Island's Financial Regulator the [Financial Supervision Commission](#) ('FSC') has confirmed that an Isle of Man entity acting as a crypto-currency exchange falls outside the current regulations because for the purposes of Class 8 crypto-currencies are not considered money / currency and in respect of Class 2 they fall outside the current definition of an Investment (see schedule 2 of the regulated activities order).

### Why outside Financial Regulation doesn't mean Unregulated.

Our Government is supportive of crypto-currency business initiatives; but it recognises, perhaps counter-intuitively, that the industry needs some regulation to allow it to grow. Anyone who has tried to open a bank account for an unregulated crypto-currency exchange will sympathise with this.

The Isle of Man Government recently issued a press release entitled "[Isle of Man Moves to Control Digital Currencies](#)".

The 'meat' is contained in the [Q&A document](#) which amongst other things confirms that while there are no current plans to regulate digital currency exchanges via the existing Isle of Man financial services legislation, they will become subject to the Proceeds of Crime Act 2008 and the [Designated Business \(Registration and Oversight\) Bill 2013](#).

For a link enabled acrobat copy of this document - <http://goo.gl/CfXKQH>

## So what does this mean in practice ?

This means that while digital currency exchange businesses will not require a licence to operate from the Isle of Man, they will need to register with the 'FSC' as a 'Designated Business' (for anti-money laundering purposes) under the proposed Designated Business (Registration and Oversight) law.

Other Isle of Man businesses will be subject to the same regime; including, estate agents, accountants and lawyers. You can find a copy of the consultation document and the draft legislation [here](#).

Registration with the FSC will be a prerequisite requirement for businesses wishing to operate as crypto-currency exchanges in the Isle of Man and operating without such a registration will be illegal.

One way or another – either by an industry code of practice or by guidelines issued by the FSC – minimum standards of anti-money laundering practice will be expected and required by such businesses so that they comply with the Proceeds of Crime Act 2008 and presumably the Terrorism Finance Act 2009 (although this isn't mentioned). For more information about Isle of Man Anti Money Laundering laws see [here](#)

Based on existing Anti-Money Laundering law it seems certain that crypto-currency businesses will require appropriate systems and procedures to be put in place to guard against such crimes; specifically:-

- (1) Identification documents:** Certified identification documents will need to be obtained from clients – certainly for transactions above a certain threshold value.
- (2) Training:** Staff will require regular anti-money laundering training so they are equipped to recognise hallmarks of suspicious activity and understand the steps required of them if they form a suspicion of money laundering.
- (3) Source of funds / source of wealth** information will be required from clients – again most likely for clients engaged in transactions above a certain threshold value.
- (4) Formal Procedures adopted:** Businesses will need to adopt and implement formal compliance and anti-money laundering procedures and appoint experienced Money Laundering Reporting and Compliance officers to oversee operations.

Once registration is granted the FSC will be responsible for monitoring the business's compliance with the law. This will involve site visits and detailed inspections of registered businesses' files.

While this might appear quite 'involved' and expensive for an unregulated business, the good news is that 'designated business' status is likely to make it much easier for Isle of Man crypto-currency exchanges to secure banking and merchant facilities with nervous counterparties.

There is a wealth of financial services professionals in the Isle of Man (including Middleton Katz) who are familiar with the local anti-money laundering laws who can help you to set up your crypto-currency business in full compliance with the Isle of Man laws.

**Middleton Katz been helping entrepreneurs to set up in or relocate to the Isle of Man since 2005. If you would like to explore the benefit of setting up operations in the Isle of Man; please contact me and we will do our best to assist you.**

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