

Warsaw, 7 July 2017

**Statement by Narodowy Bank Polski (NBP) and the Polish Financial Supervision
Authority (KNF) on “virtual currencies”**

Narodowy Bank Polski and the Polish Financial Supervision Authority warn potential users against the risks associated with “virtual currencies” (such as bitcoin, litecoin, ether).

Narodowy Bank Polski and the Polish Financial Supervision Authority inform that “virtual currencies” are neither issued nor guaranteed by a country’s central bank, they cannot be considered to be money, which means they are neither legal tender, nor a currency, they cannot be used to pay taxes, and they are not widely accepted in retail and service outlets. “Virtual currencies” cannot be considered e-money, and they are not regulated under the provisions of the Act of 19 August 2011 on Payment Services and the Act of 29 July 2005 on Trading in Financial Instruments.

It’s worth noticing that in the past years central banks and financial market supervisors, including the European Central Bank (ECB) and the European Banking Authority (EBA), have expressed concern and urged caution in respect of “virtual currencies”, as they have identified numerous threats in their functioning and development. According to the definition proposed by the European Banking Authority, “virtual currencies” are defined as, “a digital representation of value that is neither issued by a central bank or public authority nor necessarily attached to a fiat currency, but is used by natural or legal persons as a means of exchange and can be transferred, stored or traded electronically.”

Trading in “virtual currencies” is not an infringement of Polish or European law. Possession of “virtual currencies”, on the other hand, is associated with a great deal of different types of risk of which the users should be aware prior to their investment.

The examples of types of risk are the following:

- Risk associated with the potential loss of funds due to theft. “Virtual currencies” can be subject to theft, e.g. as an outcome of cyberattacks on “virtual currencies” exchange platforms, or the user’s infrastructure. For instance in October 2016 one of the biggest Polish “virtual currencies” exchange platforms terminated its activities in unknown circumstances. Claims enforcement and recovery of the funds may be entirely impossible in this situation.

- Risk associated with lack of guarantees. The funds kept in “virtual currencies” are not guaranteed by the Bank Guarantee Fund, as they are not considered to be bank deposits.
- Risk associated with lack of widespread acceptability. “Virtual currencies” are not widely accepted in retail and service outlets. They are neither legal tender nor a currency. This means that entrepreneurs have no legal obligation to accept payments in “virtual currencies”, even if they did so before.
- Risk associated with the possibility of fraud. Some of the possible investments in “virtual currencies” may be pyramid schemes, which in association with the specific types of risk described above may in a short time lead to the investors losing their money. Should this situation occur in Poland, the only available form of legal protection is criminal investigation as none of the Polish institutions for consumer protection (the Office of Competition and Consumer Protection or the Polish Financial Supervision Authority) have legal grounds to help the investors. As traders in “virtual currencies” act in different jurisdictions with different levels of investor protection, this poses a significant problem in claims enforcement.
- Risk associated with significant price changes. So far, the prices of “virtual currencies” are characterized by high volatility. Single transactions in “virtual currencies” could have a major impact on the price.

Due to the above mentioned risks, Narodowy Bank Polski and the Polish Financial Supervision Authority advise against buying “virtual currencies” and investing money in them. Holding “virtual currencies” is associated with a significant number of types of risk, not only for their users, but also financial institutions. Bearing in mind the need to ensure proper functioning, stability, security and transparency of the financial market, as well as confidence in that market, and to safeguard the interests of the financial market participants, Narodowy Bank Polski and the Polish Financial Supervision Authority consider the buying, holding and selling of “virtual currencies” by the entities supervised by the Polish Financial Supervision Authority as high-risk activities, and not in line with stable and prudent management of the financial institution. Narodowy Bank Polski and the Polish Financial Supervision Authority also indicate that the financial institutions should exercise particular caution when engaging in or having established relations with “virtual currency” traders, especially in relation to the risk of those entities being used for money laundering and terrorism financing purposes. Any decision in this regard should be preceded by a thorough analysis of the potential consequences, including also legal and reputational risk.

The necessity to distinguish “virtual currencies” from the distributed ledger technology (DLT), used by some of the “virtual currencies” should also be underlined. The distributed ledger technology may have a number of uses, including in electronic databases, industry, services or the financial sector. Many of the functional, operational and legal aspects of this technology should be thoroughly assessed in full detail and tested before being introduced to the financial market.