



# CALL FOR PROPOSALS

## ***Virtual Currencies: What are the “real” risks?***

The SWIFT Institute invites proposals for research on the recent developments in virtual (including digital and crypto currencies) currency schemes (e.g. Bitcoin, Litecoin, PPCoin, BBQcoin, Ven, etc.).

There has been a proliferation of virtual currencies following the intense interest both from the media and wider public around Bitcoin; arguably the most popular of the virtual currencies. With Bitcoin's increasing usage, virtual currencies are becoming more of a reality. There are Bitcoin ATMs in more than 10 countries worldwide, and the currency is increasingly accepted by mainstream retailers including the Apple app store. Meanwhile, Ven has quietly grown in legitimacy and is now listed on LMAX and Thomson Reuters for FX transactions.

The use of virtual currencies is, however, still in its infancy, and central banks are watching with great interest...and caution. In July 2014 the EBA (European Banking Authority) warned financial institutions away from virtual currencies until a regulatory regime is in place. Whilst acknowledging that virtual currencies could provide benefits including cheaper transactions and increased financial inclusion, the EBA identified 70 risks that combined outweigh the benefits. In June 2014 the Dutch central bank, DNB, issued a warning to banks about involvement with virtual currencies and the issues surrounding anonymity and anti-money laundering rules. Also in June the Canadian government passed a law classifying firms dealing in virtual currencies as 'money services businesses', therefore subject to record keeping, verification procedures, suspicious transaction reporting and registration requirements.

Currently, there are estimated 40-80K Bitcoin transactions per day. This is expected to rise exponentially as the currency gains acceptance and speculative interest by investors' increases. Relative anonymity of virtual currency transactions, the number and spread of participants involved and the multitude of virtual currencies available contribute to the difficulty in tracking the exact size of the virtual currency market. Given the complicated technical nature of processing these transactions, and the use of distributed ledger technologies, is the system sustainable for the long term?

Greater transparency and awareness is thus instrumental in preventing unexpected monetary, economic and financial impacts due to virtual currencies. Research proposals can be theoretical or empirical, and should seek to address some of the following questions:

- What is the net economic impact of virtual currencies? Do the lower transaction costs and development of e-commerce outweigh the resources expended in “mining” virtual currencies? Is there a net negative or positive correlation to GDP?
- What is the relationship between virtual currencies and real money? What is the quantification of the potential “crowding-out” effect and what possible implications will this have on monetary policy and its signalling effect?
- In the quest for cashless payments, how can banks and virtual currencies cooperate, especially as the number of transactions increase?



# CALL FOR PROPOSALS

- What are the risks involved in using virtual currencies? Is there systemic risk if virtual currencies take off and become accepted as a “money substitute”?
- What role can or should regulators and central banks and the banking sector play in these virtual currency schemes?
- What are the potential impacts from distributed ledger technologies used in some virtual currencies on the current financial system?
- Will centralization of currency issuers or ledgers help mitigate fraud risk and introduce stability to the popular distributed ledger currencies?
- Will policy such as fixing / pegging exchange rates help to stabilise virtual currencies?
- If regulation is necessary to limit risk, how should virtual currencies be overseen given the involvement of multiple jurisdictions and parties? Should they be registered as financial institutions or be licensed as banks?
- How can money laundering and other criminal activity be avoided when using virtual currencies?
- In practice, just how ‘easy’ is it to engage in a virtual currency transaction compared to the fiat system generally used today?

## **Grant & Working Paper**

A grant of EUR 15,000 will be awarded to the author of the selected proposal. 50% will be paid immediately; the remaining 50% will be paid on acceptance of a working paper.

## **Proposal Submission**

Please submit your research proposal as follows:

1. CV / bio including education, work history, research experience, publications, etc.
2. Description of your research project (2,500 words maximum) to include the following:
  - Objective of your research
  - Methods by which you intend to undertake your research
  - Timeframe by which you intend to complete your research
3. By email in MS Word / Excel / PowerPoint format and / or pdf.

**Deadline:** Proposals must be submitted no later than 20<sup>th</sup> August 2014.

**Email:** Send submissions to: [peter.ware@swift.com](mailto:peter.ware@swift.com)