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Overview of virtual currency schemes

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EUROPEAN CENTRAL BANK: TASKS AND WORK

- European Central Bank is the European equivalent of the US's Federal Reserve
- Responsible for maintaining price stability, but also financial stability, and for promoting the smooth operation of payment systems
- It examines developments with regard to (retail) payment systems and payment instruments
- Work on “virtual currency schemes” started in 2011 after increased press coverage and following outside requests (public, press, public authorities)

VIRTUAL CURRENCY SCHEMES: DEFINITION



Legal status	Unregulated	➤ Certain types of local currencies	➤ Virtual currency schemes
	Regulated	➤ Banknotes and coins	➤ E-money schemes ➤ Commercial bank money (deposits)
		Physical	Digital
		Money format	

TYPES OF VIRTUAL CURRENCY SCHEMES

1. **Closed virtual currency schemes**

Almost no link to the real economy (“in-game only”); sometimes a subscription fee. For virtual goods/services and cannot be traded outside the virtual community.

Example: World of Warcraft (WoW) Gold

2. **Virtual currency schemes with unidirectional flow**

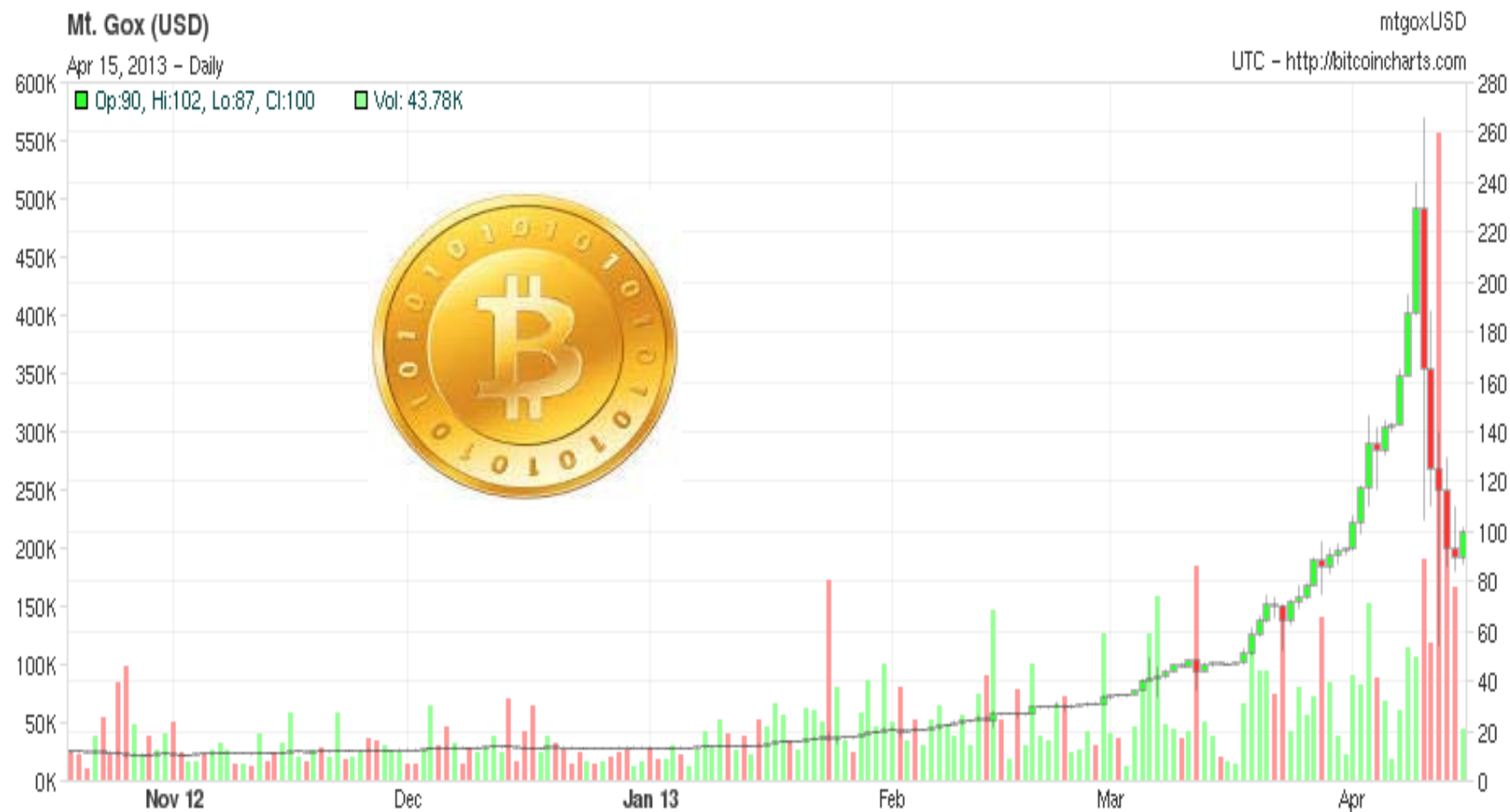
Purchased using ‘real’ currency at specific exchange rate, but cannot be exchanged back. For virtual goods/services, but some also allow for real goods/services. *Examples: former Facebook Credits, Amazon Coins, Nintendo Points, frequent-flyer points*

3. **Virtual currency schemes with bidirectional flow**

Buy and sell virtual money according to the exchange rates. For both virtual and real goods and services.

Example: Second Life Linden Dollars (L\$), Bitcoin

VIRTUAL CURRENCY SCHEMES: BITCOIN



THREE DIFFERENT FUNCTIONS OF MONEY

- Medium of exchange:
used as an intermediary in trade to avoid the inconveniences of a barter system, i.e. the double coincidence of wants between the two parties involved in the transaction.
 - Unit of account:
acts as a standard numerical unit for the measurement of value and costs of goods, services, assets and liabilities.
 - Store of value:
money can be saved and retrieved in the future.
- Bitcoin does not meet any of these functions
- So far, VCS are hardly used for payments

ECB'S VIEWS

In the current situation, and subject to the information available, virtual currency schemes...

- Do not pose a risk to **price stability** nor can they jeopardise **financial stability**;
- Are not (yet) **regulated** and not closely **supervised or overseen** by any public authority – risk for users;
- Are a challenge for authorities, as might be used by **criminals, fraudsters** and **money launderers**;
- Do fall within central banks' responsibility as a result of characteristics shared with payment systems.

WHAT ROLE CAN AUTHORITIES PLAY?

- Monitor market developments, provide analyses, including payment statistics, act as “catalyst”
- Facilitate a social dialogue between stakeholders to:
 - develop a payments strategy and set work priorities,
 - set business requirements for specific payment instruments,
 - identify harmonisation and standardisation needs.
- Set challenging payments security requirements
- Regularly update the legal framework to:
 - provide clarity on responsibilities and liabilities,
 - remove obstacles that hinder innovation or competition,
 - facilitate market entry for new, innovative types of providers.

**Thank you for your
attention!**

Disclaimer

**The views expressed in this presentation
are those of the speaker and do not
necessarily reflect those of the
European Central Bank.**