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**TENNESSEE DEPARTMENT OF FINANCIAL INSTITUTIONS AIMS TO ARM
CITIZENS WITH INFORMATION ABOUT VIRTUAL CURRENCY**

NASHVILLE, TN- Tennessee Department of Financial Institutions (TDFI) Commissioner Greg Gonzales announced today that the department is offering guidance to Tennesseans for their consideration should they decide to engage in transactions or investments involving virtual currency^[1].

“An increased interest in virtual currency and other payments innovations has led to a rapid emergence of different types of currencies and payments options,” Gonzales said. “As these make their way into the marketplace, it is important for consumers and investors to educate themselves with accurate information to make informed decisions about this innovative and evolving industry.”

Virtual currency is defined as an electronic medium of exchange that does not have all the attributes of real currencies. Virtual currencies include cryptocurrencies, such as bitcoin and litecoin, which are not legal tender and are not issued or backed by any central bank or governmental authority. Virtual currencies have legitimate purposes and can be purchased, sold, and exchanged with other types of virtual currencies or real currencies like the U.S. dollar. This can happen through various mechanisms such as exchangers, administrators, or merchants that are willing to accept virtual currencies in lieu of real currency.

Prior to buying, selling, transacting with, or investing in a virtual currency, consumers should always consider the following:

- Virtual currencies are volatile in value. They are not backed by a central bank and are highly volatile with the potential for complete loss of value. This may affect investors as well as consumers using virtual currencies as a means of payment.
- Virtual currencies can be stolen or otherwise subject to loss. There is the potential for consumers to incur financial losses if an account is not maintained in a secure manner. Currently, most virtual accounts or “wallets” – unlike funds held in U.S. banks or credit unions – are not insured against loss. There is no way to reverse virtual currency transactions.
- Virtual currencies have been connected to criminal activities. Like other forms of payment, virtual currencies and virtual currency exchanges have been used to fund illicit activities. Legitimate customers of virtual currencies may be unable to access accounts if an exchange is shut down as part of a criminal investigation or for any other reason.

- Virtual currencies and companies dealing in virtual currencies may or may not be regulated.
- State and federal regulators are evaluating and developing approaches to regulating virtual currencies and companies that deal in virtual currencies. Any company that offers to exchange, administer, or maintain virtual currencies may be subject to state regulation and licensing as well as federal regulation.
- An administrator or exchanger that accepts and transmits a convertible virtual currency or buys or sells convertible virtual currency for any reason is a money transmitter under federal regulations^[2] and therefore should be registered as a money services business (MSB).
- Virtual currency transactions may be taxable. For federal tax purposes, the IRS has announced that virtual currency is treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency. This includes determining the fair market value of virtual currency in U.S. dollars as of the date of payment or receipt, as well as any gain or loss incurred. For more information, go to <http://www.irs.gov/uac/Newsroom/IRS-Virtual-Currency-Guidance>.

“Do your homework.” Gonzales continued. “As with any financial service or product, consumers should make sure that they understand the service or product and how it works. Additionally, consumers should make sure that they are using the service or product in a manner and amount that makes sense for their specific financial situation. These principles apply to virtual currencies as well.”

Consumers considering the use of virtual currencies should research any company offering services related to virtual currencies. This includes exchanges, platforms, administrators, sellers, or ATMs. There are a variety of sources of information available:

Consumers should check the Department’s website and other state agencies’ websites for information about authorized money transmitters. For a comprehensive list of state regulatory agencies, go to <http://www.csbs.org/about/what/Pages/StateBankingDepartmentLinks.aspx>.

Investors should always check with their state securities regulator for information about investment products and the registrations of people who sell securities. For a complete list of state securities regulators, go to: <http://nasaa.org/about-us/contact-us/contact-your-regulator/> . For information on virtual currency in general and specific information about virtual currency as an investment, please go to: <http://www.nasaa.org/wp-content/uploads/2014/04/Virtual-Currency.pdf> .

To check if a virtual currency exchanger or administrator is registered with the Financial Crimes Enforcement Network (FinCEN), go to http://www.fincen.gov/financial_institutions/msb/msbstateselector.html.

The NMLS Consumer Access website, nmlsconsumeraccess.org, also may be able to assist with determining if an entity is state-licensed.



[1] This guidance is based on the Model State Consumer and Investor Guidance on Virtual Currency prepared by the Conference of State Bank Supervisors that can be located here:

<http://www.csbs.org/legislative/testimony/Documents/ModelConsumerGuidance--Virtual%20Currencies.pdf>

[2] Convertible virtual currency is virtual currency that either has an equivalent value in real currency or acts as a substitute for real currency. The FinCEN guidance can be located here:

http://fincen.gov/statutes_regs/guidance/html/FIN-2013-G001.html.

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