

Chapter 1

Introduction

1.1 On 2 October 2014, the Senate referred the matter of digital currency to the Economics References Committee for inquiry and report by the first sitting day in March 2015.¹ On 2 March 2015, the Senate granted an extension of time to report by 10 August 2015.²

1.2 Under its terms of reference, the committee was to give particular reference to:

- (a) how to develop an effective regulatory system for digital currency that:
 - (i) ascertains the most appropriate definition of digital currencies under Australian tax law,
 - (ii) promotes competition and growth of the digital currency industry,
 - (iii) ensures ongoing stability in the financial services industry,
 - (iv) secures protection of consumers and businesses against illegal activity,
 - (v) incorporates digital currencies into Australia's national security framework, and
 - (vi) ensures the financial stability of the industry;
- (b) the potential impact of digital currency technology on the Australian economy, including the:
 - (i) payments sector,
 - (ii) retail sector, and
 - (iii) banking sector;
- (c) how Australia can take advantage of digital currency technology to establish itself as a market leader in this field; and
- (d) any other related matters.³

Conduct of inquiry

1.3 The inquiry was established to examine how best to define digital currency within the regulatory frameworks in order to support innovation and the needs of the growing Australian digital currency industry. It comes at an important juncture in the

1 *Journals of the Senate*, No. 59, 2 October 2014, pp. 1583–1584.

2 *Journals of the Senate*, No. 79, 2 March 2015, p. 2203.

3 *Journals of the Senate*, No. 59, 2 October 2014, pp. 1583–1584.

emergence of this new technology where there are both opportunities but also risks. A number of overseas countries are also considering the use of digital currency, and this inquiry is both timely and welcomed.

1.4 The committee advertised the inquiry on its website and in the *Australian*. It also wrote to relevant stakeholders and interested parties inviting submissions. The committee received 48 submissions. The submissions and answers to questions on notice are listed at Appendix 1. On 26 November 2014 and 4 March 2015, the committee held public hearings in Canberra and on 7 April 2015 in Sydney. A list of witnesses is at Appendix 2.

1.5 In December 2014, an international delegation made up of members of the committee travelled to Singapore and Canada. They took the opportunity during their visit to discuss matters related to digital currency including approaches to its regulation. For example, digital currency was considered during meetings with representatives of the Bank of Canada, Finance Canada, the Canada Revenue Agency, and the Royal Canadian Mint. In addition, on 16 December 2014, the delegation met with the Chair, Senator the Hon Irving Gerstein, and members of the Canadian Senate's Standing Committee on Banking Trade and Commerce which is also conducting an inquiry into digital currency. It is worth noting that like Australia, Canada also treats digital currencies, such as Bitcoin, as commodities, and transactions using digital currencies as barter transactions. In this context, committee members were able to exchange views on the regulatory risks related to digital currencies particularly given the rapid rate of changing technology.

Structure of the report

1.6 This report comprises six chapters including this introductory chapter:

- chapter 2—provides an overview of digital currencies and recent developments both in Australia and overseas;
- chapter 3—discusses some of the potential risks and benefits of digital currencies;
- chapter 4—examines the tax treatment of digital currencies;
- chapter 5—looks at how digital currencies fit within the financial and payments system regulatory frameworks; and
- chapter 6—considers whether digital currencies should be brought within the anti-money laundering and counter terrorism regime.

Acknowledgements

1.7 The committee thanks all those who assisted with the inquiry, especially those who made written submissions.