



Office of
the Prime Minister

REMARKS BY

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PRIME MINISTER & MINISTER OF FINANCE

OF

THE COMMONWEALTH OF THE BAHAMAS

TO THE CONSENSUS 2022 CONFERENCE

AUSTIN, TEXAS

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CRYPTO-POLICY WITHOUT BORDERS

Good Afternoon everyone.

I am delighted to be able to join you here in Austin and I thank you for your warm welcome.

I am on my way home to The Bahamas, having spent most of the week with other leaders of this hemisphere at The Summit of The Americas in Los Angeles.

Whether pursuing the many opportunities of our age, or confronting challenges and

conflicts, the need for international cooperation and action is clear.

That is true when it comes to digital assets as well.

It has been a turbulent time in global markets generally, and crypto has been no exception.

But the best and strongest innovations will survive to fulfil their considerable promise.

The promise of an opportunity for a less centralised and more democratic financial system, new financial products that serve a

broader range of consumers, and even innovations in property rights.

We believe The Bahamas can and should be home to digital assets companies who want to realise this exciting potential, and I hope to make a persuasive case that our small island nation has a lot to offer to disruptive innovators in global finance.

There's a simplistic assumption among some that digital assets companies prefer zero regulation. I have not found that to be the

case. Instead, what the best companies are looking for is a system that provides some certainty, with rules that reflect expertise and make sense.

As we have long found with other financial assets, when in the hands of bad or unscrupulous actors, digital assets can pose significant risks to consumers, investors, market integrity and financial stability.

According to CipherTrace, in the first seven months of 2021 alone, “crypto thefts, hacks, and frauds totalled \$681 million”.

A February 2022 report from the Financial Stability underscored the risk stemming from the increasing interconnectedness of crypto assets to core financial markets and financial institutions.

There has been an expansion in international efforts to regulate, with initiatives by the G20, the Bank for International Settlements, the

Financial Action Task Force, the Organization for Economic Cooperation and Development, and the International Organisation of Securities Commissions or the IOSCO.

Ashley Alder, who is both Chairman of the IOSCO as well as CEO of the Hong Kong Securities and Futures Commission, suggested just last month that there is a need for a joint body to coordinate global crypto regulation.

One emerging factor behind such calls is the fear of regulatory arbitrage – in which digital

asset businesses shop around the world for the most favourable regime, and play different regulators off against each other.

Given that we are also still in the early stages of this sector, there is also currently limited global expertise on these matters. The instinct to pool knowledge and experience into a single, worldwide body is understandable.

We believe that any such system would require wide participation to succeed, including the participation of a country like

ours, which has proven to be both nimble and innovative.

When the Digital Assets and Registered Exchanges Act – or DARE -- passed into law in 2020, it made The Bahamas one of a small number of jurisdictions in the world with an established, formal legal framework to regulate the issuance, sale and trade of digital assets.

The approach was risk-oriented and based on established principles.

The result was a well-considered,
internationally compliant legal framework.

We have good reasons for innovating in this
space.

From our national perspective, the digital
assets industry can be leveraged to increase
employment, to expand and diversify our
economies, to grow the tax base, and to
provide new entrepreneurial opportunities.

Small nations, such as The Bahamas, often have intrinsic limitations that challenge our capacity to diversify our economies.

The decentralized, democratized nature of digital assets means that in order to participate, countries like The Bahamas do not have to possess immense resources, or have a massive and cheap labour force.

What the sector requires is reliable infrastructure, a skilled local talent pool, and the ability to be able to leverage or develop

the requisite expertise, both in the industry and in the regulatory regime.

We need to be a sufficiently attractive place that businesses want to come and set up shop. We can do all those things, and we can do them very well.

The Bahamas has a deep bench when it comes to professional expertise in financial services and fintech, based upon our decades-long success as an international financial center.

Another reason our country moved to regulate early on is that small nations also face risks from cryptocurrencies, just as larger nations do.

In The Bahamas, we have potential investors and consumers to protect.

We have obligations and commitments to the global fight against money-laundering (AML) and combating terrorism financing (CTF), which we must honour.

We also have entrepreneurs, and a labour force looking for new opportunities, including from this new sector.

My government believes that we therefore have a public policy responsibility to consider and address how we will manage and mitigate these risks.

For The Bahamas, turning a blind eye was not a viable option.

The alternatives were either to impose an outright ban on digital assets, or to develop regulations to manage and mitigate the associated risks.

The Bahamas has taken the position that it will not strangle innovation, but rather, we will regulate pragmatically.

We decided to base our approach on strong and established regulatory principles, and in line with the public policy objectives of global

standards setters like the Financial Action Task Force, IOSCO and the OECD.

We decided that a 'principles-based', rather than a 'prescriptive' approach to regulation, is best.

That gives our jurisdiction a degree of flexibility to address regulatory concerns, which is very helpful given the size, activity, stage of development of digital assets, and level of regulatory risk within the markets.

The approach the FATF has taken by providing AML/CFT guidelines rather than being overly prescriptive resonates with our goal of allowing the space to develop sensibly, and we have already adopted its principles into AML/CFT Rules for the Digital Assets businesses, which are in effect.ⁱ

Having taken this approach, in a remarkably short space of time, The Bahamas has proven itself to be a leader in the digital assets space, with a lot to offer.

An excellent example of this is DARE's approach to determining if a crypto-asset is a security or not.

You know, this remains a weighty question for many jurisdictions and regulators.

DARE clearly defines various types of digital assets and what is in scope for regulation.

But it also establishes digital assets, or cryptos, as its own asset class!

The Bahamas has therefore not attempted to force digital asset regulation into a pre-existing regulatory framework.

By giving the space its own regulatory regime, DARE removed the question of whether a crypto is a security or not, along with the regulatory uncertainty associated with that question.

DARE provides a framework whereby digital assets can be addressed holistically.

Friends, we're all fully aware that fundamental to cryptocurrencies and the blockchain is the concept of disintermediation.

In fact, it's largely the point around which many benefits are derived.

There is no centralized authority in control, and you don't have to use a registered broker to conduct transactions.

This is diametrically opposite to a fundamental principle to the regulation in banking, securities and commodities.

Intermediaries act both as gatekeepers to the industry, and as critical touchpoints for regulators.

This poses a significant policy and regulatory challenge: how should we operate best in a truly de-centralized environment?

Our view is that regulators and policymakers must challenge themselves to embrace this new paradigm. We must develop regulatory frameworks and tools that can be effective in a space without traditional intermediaries.

As I said, The Bahamas believes that regulation of digital assets should be based on Principles.

Regulations should be proportionate to the risk, and not be so onerous as to drive the sector underground.

That would obviously lead to other issues, which are less manageable and pose even greater risks.

My country's Attorney General, Ryan Pinder, who chairs our Digital Advisory Panel, will be participating in the upcoming panel, and will share more detail regarding the legislative and technical matters we have under consideration.

Because we are nimble and believe in innovation, we are able to advance reforms in the regulatory framework quickly through our legislature, as a response to the evolution and trends that occur in this fast-changing digital space.

So that is why I'm here tonight.

To tell you that our small little country is determined to be the best little country in attracting and regulating digital asset businesses to our shores.

I'm sure you must've heard it before, but I can tell you it's getting even Better In The Bahamas.

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ⁱ DIGITAL ASSETS AND REGISTERED EXCHANGES (ANTI-MONEY LAUNDERING, COUNTERING FINANCING OF TERRORISM AND COUNTERING FINANCING OF PROLIFERATION) RULES, 2022