



Regulatory Sandbox Framework for Mining Cryptocurrency

(January 2019)



1. Declaration

In line with the provisions under Section 362(e) of Financial Services Act of Bhutan 2011 and Sections 8 (d), (e) and 9 (l) of the Royal Monetary Authority Act 2010, the Royal Monetary Authority (RMA) hereby formulates and promulgates the said regulatory sandbox framework for mining cryptocurrency.

2. Purpose

Firstly, the sandbox shall serve as a formal regulatory framework to test cryptocurrency mining in a live environment in the country, subject to certain safeguards and oversight, and for a limited time under the supervision of the relevant regulators in a controlled environment;

Secondly, the regulatory sandbox will assist RMA to study and obtain relevant inputs to implement necessary regulatory reforms, while preserving the consumer protection and safeguarding against risks in the financial sector and the economy posed by emerging technologies and products, such as cryptocurrency; and

Thirdly, to assess the viability of cryptocurrency mining as a new investment avenue for Bhutan, given the country's low-cost electricity and suitable climatic conditions.

3. Objectives

The cryptocurrency regulatory sandbox seeks to realize the following objectives:

1. To ensure that cryptocurrency mining strictly complies with the country's relevant laws and by-laws in vogue;
2. To regulate and supervise cryptocurrency mining and trading activities to ensure that they do not pose any risks to the financial system;
3. To ensure that appropriate safeguards are put in place to protect the investors and consumers; and
4. To introduce regulatory reforms to overall support disruptive technologies in an innovative way.

4. Operating Conditions

1. The promoter shall not be allowed to float Initial Coin Offerings (ICOs) to raise capital to pilot cryptocurrency mining activities either in Bhutan or in any other country, without a prior written approval from the RMA.
2. The promoter shall maintain real identities of parties involved, including, for example, customer identification, verification and record keeping, in the buying, holding or trading of cryptocurrency and shall adhere to the requirements of relevant laws.

3. The promoter shall submit details of those individuals and parties to the RMA of those international clients, including but not limited to, details about the legality of exchange houses, articles of incorporation, safety and soundness measures, e-KYC, consumer protection and legal recourse mechanisms provided by these clients'/exchange houses.
4. The promoter shall not engage and/or promote buying/selling and trading of cryptocurrency inside the country, nor facilitate cryptocurrency services, such as exchanges or intermediaries.
5. The promoter shall pilot the project with utmost discretion and shall refrain from engaging in cryptocurrency launching and marketing campaign.
6. The promoter shall pilot cryptocurrency mining at their own risks and shall be solely liable about the potential financial, operational, legal, customer protection and security risks.
7. RMA neither endorses nor recognizes cryptocurrency as the substitute/ surrogate to legal tender/currency.

5. Access to Foreign Currency

1. The promoter shall not apply for and/or seek foreign currency support from RMA to purchase/import cryptocurrency equipment and other activities linked to cryptocurrency.

6. Potential Risks and Safeguards

1. The promoters shall conduct sufficient research and due diligence on mining and trading cryptocurrency owing to the speculative nature of cryptocurrency with the view to maintain safety, liquidity and return on investment.
2. The promoter shall conduct appropriate risk assessment and shall have a clear risk mitigation strategy or the appropriate safeguards in place to prevent risks.
3. The promoter shall have sufficient resources and competency to carry out the proposed crypto mining activity.
4. The promoter shall identify the potential risks and impact on the financial institutions and the country at large, that may arise from mining cryptocurrency in the sandbox and incorporate appropriate safeguards to mitigate the identified risks.

5. In assessing the risks and evaluating the proposed safeguards, the promoter shall provide due regard to the following, but not limited to:
 - a. Preventing money laundering and countering terrorism financing; and
 - b. Preserving sound financial business practices consistent with monetary and financial stability of Bhutan.
6. The promoter shall have a well-defined exit strategy, a business plan and sufficient resources for deploying the product or service at larger scale in Bhutan, should the sandbox testing be successful. This shall include demonstrating the ability to meet the applicable legal and regulatory requirements.

7. Legal and Statutory Requirements

1. The promoter shall ensure that cryptocurrency mined from Bhutan's territory shall strictly comply with the country's relevant laws such as Anti-Money Laundering (AML) and Countering of Financing of Terrorism (CFT) Act 2018, by-law/s and other by-law/s adopted in accordance with the AML & CFT Act 2018.
2. The promoter shall conduct operation of cryptocurrency mining activities through a registered exchange house with proper legal recourse, safety and consumer protection procedures being put in place.
3. The promoter shall maintain compliance with the regulatory requirements set forth by regulatory authorities of the exchange houses and their respective jurisdictions.
4. The promoter shall ensure full compliance with FATF (Financial Action Task Force) recommendations pertaining to Virtual Asset Service Providers (VASP) including the need for them to carry out sectoral risk assessment of Virtual Assets and VASPs.
5. The promoter shall abide by additional directives issued by the RMA from time to time in the larger national interest.

8. Submission of Information and Periodic Reports

1. RMA reserves full authority to inspect the miners and mining farm activities through on-site visits and seek information on the cryptocurrency mining and its transactions as and when deemed necessary.
2. The promoter shall be transparent in submitting/declaring details of cryptocurrency transactions to RMA as and when transaction takes place or whenever sought by RMA from time to time.

3. The promoter shall be required to maintain proper records of cryptocurrency transactions and shall submit/declare periodic report to Royal Monetary Authority. The report shall include the following information:
 - a) Cryptocurrency mining, such as type of cryptocurrency, price of mining equipment, duration, associated costs;
 - b) Key performance indicators;
 - c) Issues and risks observed/identified;
 - d) Measures taken to address issues and risks identified;
 - e) Lessons learned and future plans; and
 - f) Cryptocurrency mined and profitability projections.

9. Exit Strategy and Termination

1. RMA shall reserve the right to terminate the mining activity in the event the promoter fails to comply with the above requirements and other conditions specified at any stage during the sandbox process.
2. The promoter shall have a well-defined exit strategy in place to fully address all possibilities which may arise due to a halt or complete shutdown of the cryptocurrency related activities in the near future, without impacting the client/ customer/partners or any related stakeholder.
3. The promoter may also exit from the activity at its own discretion by informing RMA and the agencies concerned. The promoter shall ensure that any obligations to its customers/partners under experimentation is fully assured and addressed before exiting or discontinuing the activity.

10. Exiting the Sandbox

The pilot sandbox approval shall be for a one-year term, and may be renewed thereafter, subject to the mutual acceptance of the RMA and the promoter.
