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Crypto regulations are coming: How to prepare for a regulated reality

Since Bitcoin was first introduced in 2008, the cryptocurrency landscape in Canada has undergone considerable growth and innovation. Yet, its largely unregulated status has also opened the door to the potential for illegal activities, such as money laundering and terrorism. This is something the Department of Finance and the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) hopes to end in June 2019, when it will amend its existing anti-money laundering (AML) and anti-terrorist financing (TF) regulations to include new regulatory obligations and guidance for regulated entities, including new regulations for dealers in virtual currencies.

Whether you've already taken steps to prepare for these changes—or you're just starting to turn your attention toward the challenge of regulatory compliance—there are a number of often-overlooked considerations you should be aware of for when the regulations are enacted into law and you become a “reporting entity”. Specifically, you'll want to:

1

Determine if and/or how the regulations will apply to your business.

Different businesses will be impacted by these new regulations in different ways. The proposed amendments to the current regulations were published in 2018 and define what is (and is not) considered a “dealer in virtual currency”. However, given the pace of innovation in the virtual currency industry, it may not always be clear whether your specific business model falls under this definition. For this reason, you may want to request an interpretation from FINTRAC—or reach out to a third party, like Grant Thornton LLP—so you have an idea of what you'll need to focus on.

Similarly, while you may already have a program in place, you will need to perform a gap assessment when the new regulations are published. You'll also need to formulate and execute on a plan for any required remedial action. That said, we will only know full extent on the regulatory requirements once they have been brought into force.

2

Register your business with FINTRAC.

Amendments to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTF) require all businesses that deal in virtual currencies to register with FINTRAC. While these amendments have yet to take effect, the new regulations will likely accelerate this mandate, which is why it makes sense to get ahead of the rush and [register now](#).

At the same time, if you offer services to residents in Quebec, you also have to comply with the Autorité des Marchés Financiers (AMF) regulations. [This requires a separate licensing process](#).

3

Develop and implement a five pillar AML program.

As part of the PCMLTFA, companies will also be required to develop an AML compliance regime that includes

- a designated chief compliance officer (CCO) that implements and maintains the program;
- written policies and procedures to mitigate areas of high risk;
- a risk assessment methodology (for business activities and customers);
- a training program to help employees perform AML activities; and
- an effectiveness review to test the program every two years.

Companies must also regularly monitor transactions for suspicious activity.

4

Plan and prioritize.

While these three steps, and their associated sub-steps, may seem daunting, the good news is that they don't have to be completed all at once. Typically, amendments to regulations come with an implementation grace period following their publication. That said, that doesn't mean you should wait. To ensure a smooth transition, you need careful planning, a clear starting point, prioritization of various program elements and a firm understanding of the scale of work required. This can only happen with complete buy-in of both senior management and the board.

Shaping your execution plan early will pay dividends down the line and enable you to fall within the implementation grace period set by the regulator.

Whether you're developing your AML program from scratch, enhancing it or conducting an effectiveness review, Grant Thornton can help. With deep experience in the virtual currency industry and extensive subject matter expertise in the AML space, we can guide you through your journey. To learn how Grant Thornton can help you get the ball rolling—and get ahead of the competition—visit our [website](#) or contact your Grant Thornton advisor.



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