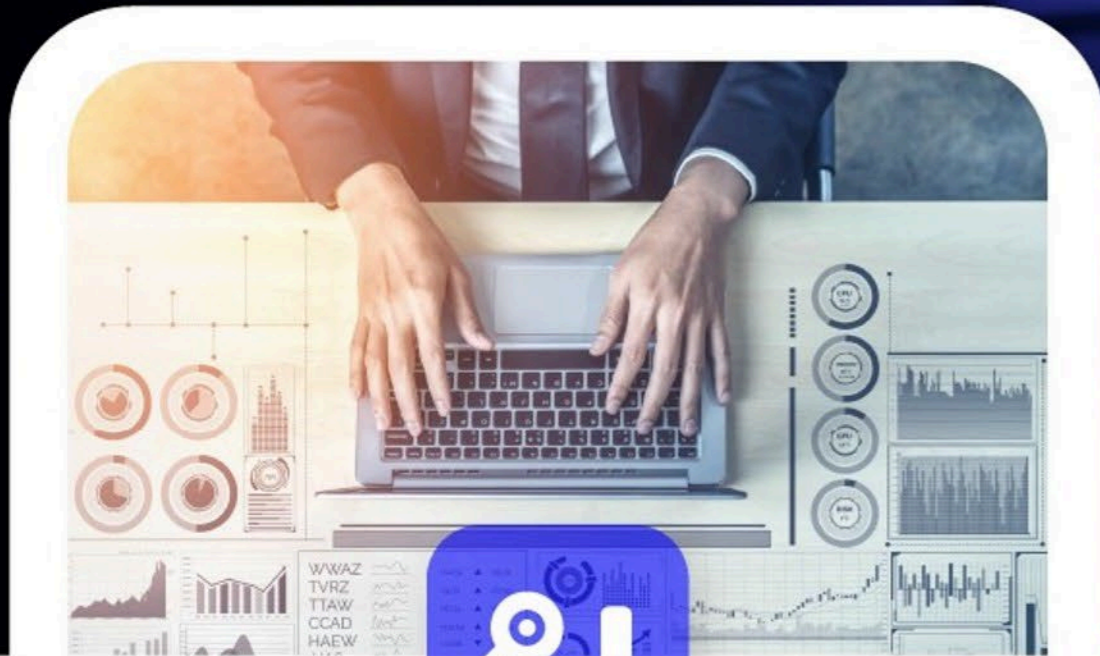




Workshop on Financial Accounts
1-4 October, Brussels

Challenges with Cryptocurrencies in Georgia



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Georgia - Favorable Environment for Mining



- ❑ The cryptocurrency boom in Georgia (pre-Covid period)
- ❑ Favorable environment for mining:
 - Increased cryptocurrency prices and comparably low electricity costs;
 - Free industrial zones;
 - Less regulations from central authorities at the initial stage;
 - High level of business discretion;
 - Streamlined business registration.
- ❑ Big miners and many individuals and small legal entities



Georgia in Crypto Rankings



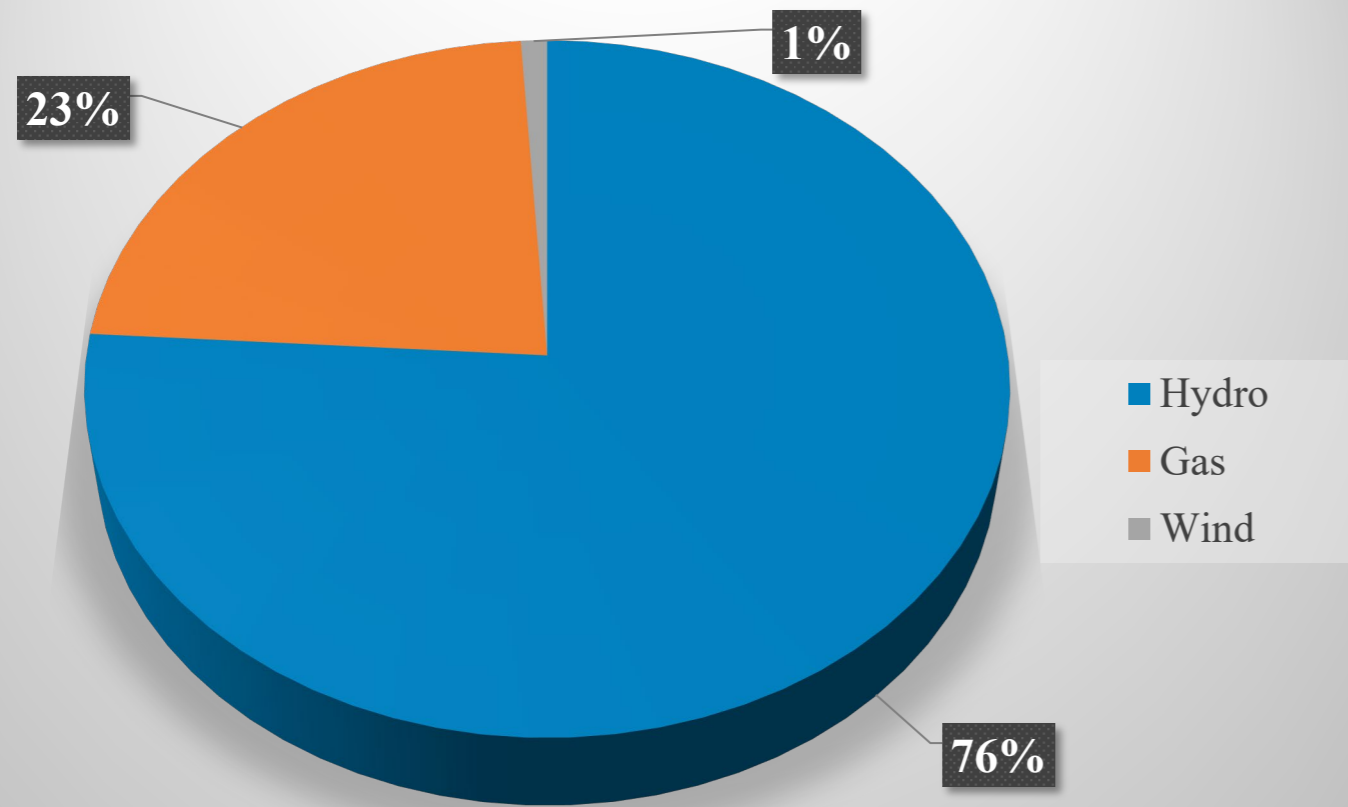
- ❑ Portal 99bitcoins.com - Georgia is in the **top 10 bitcoin-friendly countries**
- ❑ **3rd place** in the world in cryptocurrency mining (after China and Venezuela)
- ❑ Global Cryptocurrency Benchmarking Study 2017 – **2nd highest Bitcoin mining hashrate** (following China)



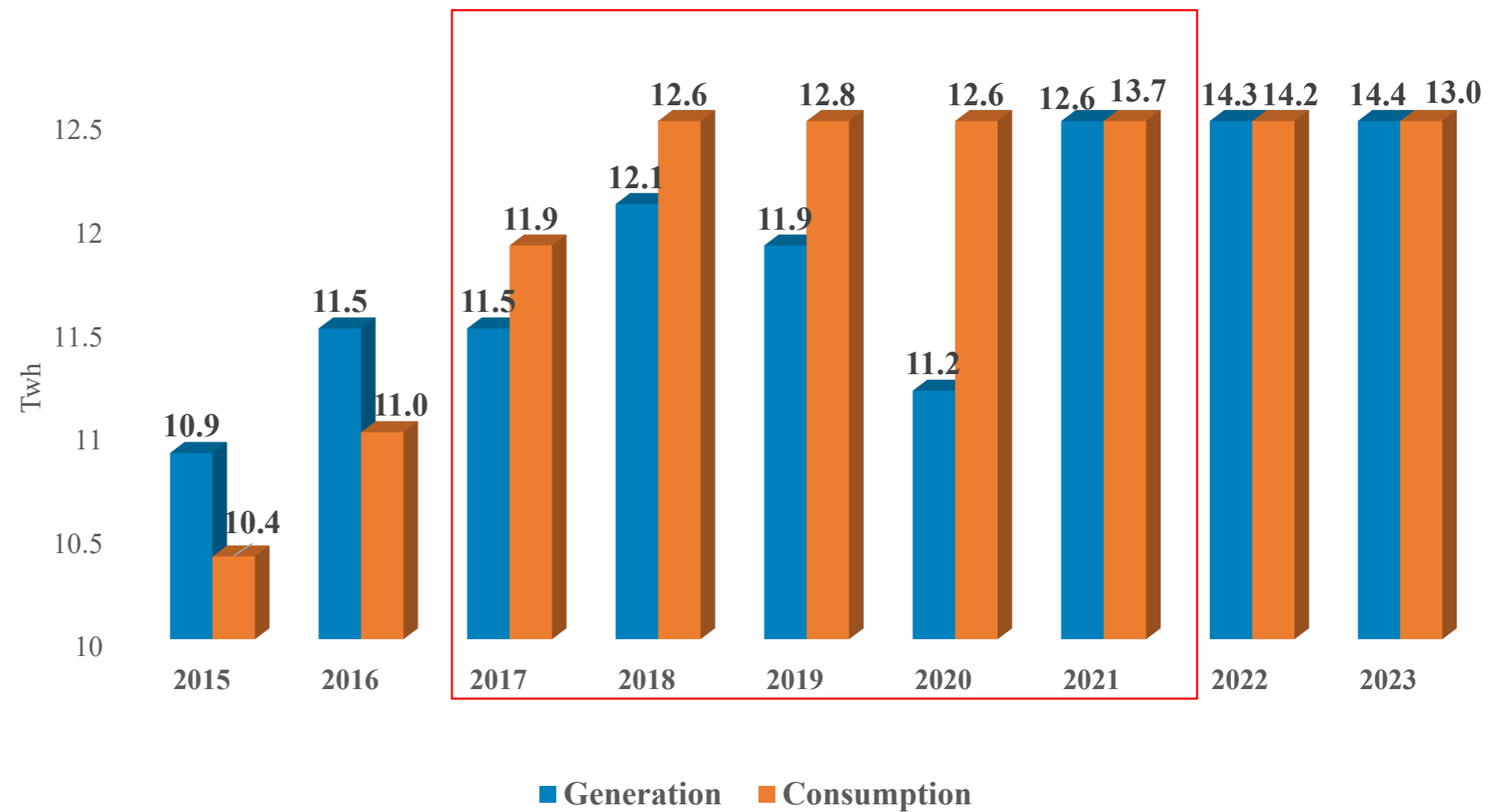
Electricity Generation and Consumption



Electricity Mix in Georgia



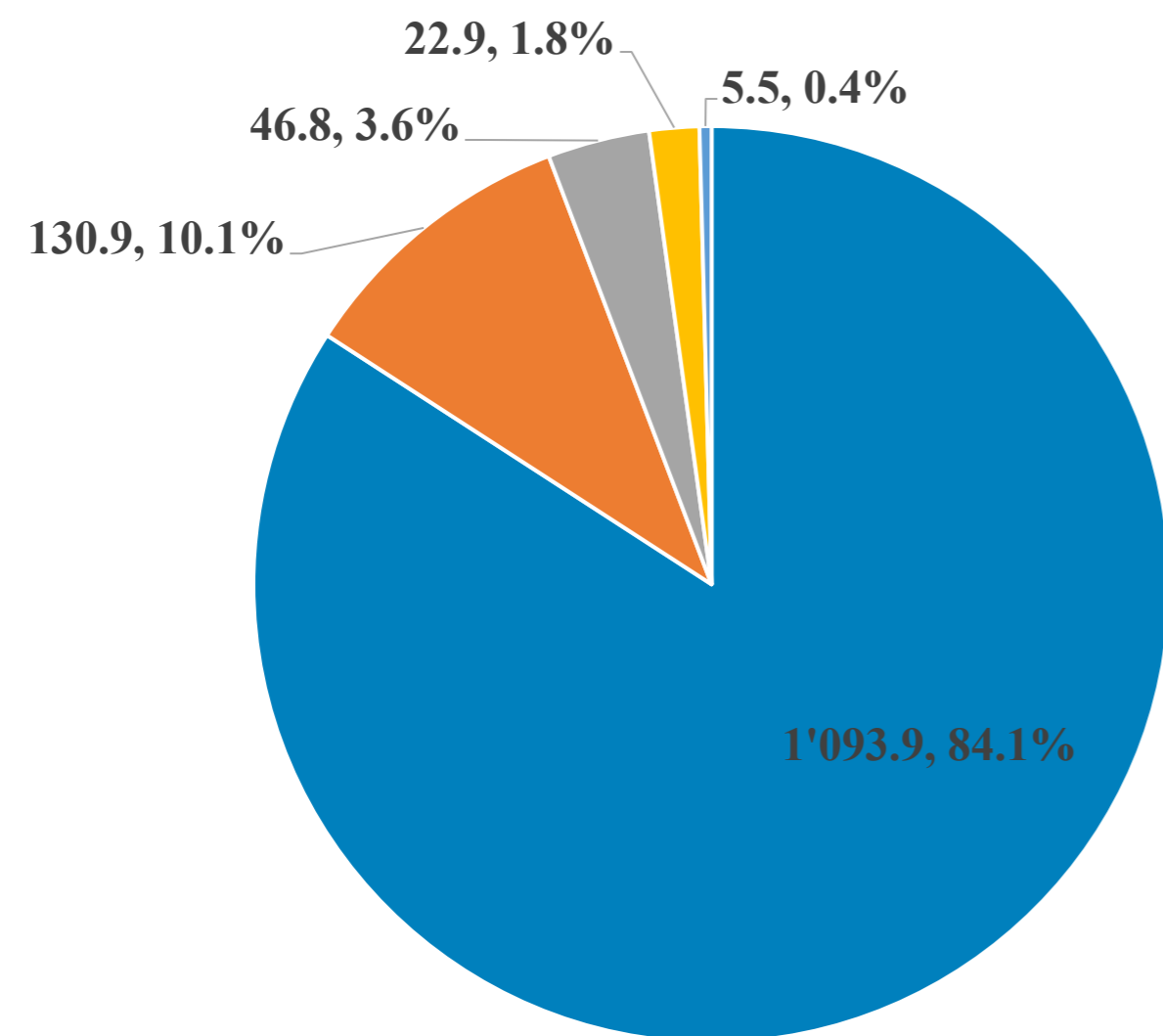
Yearly Electricity Generation and Consumption in Georgia



Top Electricity Consumers



**Electricity Consumption of Top Crypto Companies
(January-April of 2022, million kWh)**



■ Other direct consumers ■ BitFury Georgia ■ ITLab ■ Data Hub ■ Geo Maintenance



Bitfury's facility in the outskirts of Tbilisi. Source: Andrew North for NPR.

Past Attempts to Identify Companies Involved in Crypto Activities



- High electricity bills;
- GPU Imports;
- Companies in mountainous regions (where electricity is free or cheap) and in Free Economic Zones;
- Business Statistics data on activities and sectors by entrepreneurs;
- Social Statistics data on individual crypto mining and transactions;
- Data from National Bank of Georgia (NBG) on crypto transactions.



Attempts of Data Collection



❑ Ad-hoc questionnaire on Crypto Assets

was added to the survey on External Economic Activities of Enterprises;

❑ Direct contact with big miners (with no results).

Appendix II. Questionnaire on Crypto Assets

(Annex to the Survey Questionnaire on External Economic Activities of Enterprises)

Crypto currency		Total	Q1	Q2	Q3	Q4
A	B	C	C1	C2	C3	C4
Number of Bitcoins mined during the reported period	Units					
Value of Bitcoins mined (at price of the day of the transaction)	Currency					
Fees received for validating the transactions	Currency					
Number of Bitcoins sold to nonresidents	Units					
Of which through the domestic intermediary (e.g., E-Money)	Units					
Funds received from parent company						
Other than loans and funds in equity	Currency					
Fixed assets (e.g., computers, servers, etc.)	Currency					
Intellectual property	Currency					

New Regulations of Digital Assets



- ❑ **January 1st, 2023** – changes in the Organic Law of Georgia on the National Bank of Georgia (NBG)
- ❑ NBG has implemented a new regulation on determining, imposing, and enforcing monetary fines against **Virtual Asset Service Providers (VASPs)** and their administrators. This move aims to strengthen the oversight framework for VASPs in Georgia.
- ❑ New regulations provide some definitions and create a legal framework that complies with the Financial Action Task Force (FATF) recommendations. This includes adherence to current anti-money laundering and counter-terrorism financing (AML/CFT) regulations, as well as any additional supervisory requirements.



Virtual Asset Service Providers (VASPS)



- ❑ **Virtual Asset Service Provider (VASP)** is a person who provides virtual asset service for the benefit of another person.
- ❑ The following activities are considered to be **virtual asset services**:
 - Exchange (including via kiosks) between convertible virtual asset and fiat currencies (national or foreign), between one or more forms of virtual assets, between convertible virtual asset and financial instrument;
 - Transfer of convertible virtual asset;
 - Safekeeping and/or administration of convertible virtual asset or of the instrument enabling control over virtual asset;
 - Portfolio management of convertible virtual assets (excluding collective portfolio management);
 - Administration of the trading platform of the convertible virtual assets;
 - Lending of convertible virtual asset;
 - Initial Coin Offering of convertible virtual asset and/or service related to initial coin offering.
- ❑ A **virtual asset** is a digital representation of value that is interchangeable and non-unique, can be digitally traded or transferred, and can be used for investments and/or payment purposes. A virtual asset does not include digital representation of fiat currencies, securities, or other financial instruments.

Data Collected by the National Bank of Georgia



Foreign currency deposits/transfers made abroad/from abroad to the accounts of those clients
The total volume whose activity is related to the service of the virtual asset

		Money Deposits	
		Month	Client residency
		Total volume of operations (equivalent in GEL)	
Private Person Accounts	January	Georgian Resident	
		Non-resident	
	February	Georgian Resident	
		Non-resident	
	March	Georgian Resident	
		Non-resident	
Legal entity	January	Georgian Resident	
		Non-resident	
	February	Georgian Resident	
		Non-resident	
	March	Georgian Resident	
		Non-resident	

		Money Transfers	
		Month	Client residency
		Total volume of operations (equivalent in GEL)	
Private Person Accounts	January	Georgian Resident	
		Non-resident	
	February	Georgian Resident	
		Non-resident	
	March	Georgian Resident	
		Non-resident	
Legal entity	January	Georgian Resident	
		Non-resident	
	February	Georgian Resident	
		Non-resident	
	March	Georgian Resident	
		Non-resident	

VASP Offsite Matrix Draft of NBG



- Form 1. Virtual Asset Service Provider
- Form 2. VASP's Systems
- Form 3. VASP's Wallets
- Form 4. VASP's client database based on assigned risk
- Form 5. Transactions conducted by the clients of the VASP
- Form 6. Client Identification/Verification Channels
- Form 7. Channels for Movement of Fiat Funds
- Form 8. Foreign Currency Used by Clients to Obtain Virtual Asset Services
- Form 9. Transactions and Balances by Virtual Asset
- Form 10. Geographical Scope of Clients and Transactions Conducted



VASP Offsite Matrix Draft of NBG



- Form 11: Clients Identified through third parties, agents, or outsourcing service providers
- Form 12: Clients engaged in high-risk activities
- Form 13. Risk Assessment of Products Offered by a VASP
- Form 14. Persons engaged in business relationships with a VASP (excluding VASP and commercial banks)
- Form 15. VASPs in Business Relationships
- Form N16. Banks where the VASP holds accounts
- Form N17. Reports Sent to the FMS
- Form N18. Suspended Transactions/Frozen/Seized Accounts
- Form N19. Subsidiaries, affiliate institutions, branches, and representative offices



Special Survey for VASPs



Form N9. Information about operations and balances carried out by clients according to a virtual asset

Resident individual / Non-resident individual / Resident Legal Entity / Non-resident legal entity					
Name of Virtual Asset	Number of operations	Volume of Operations (expressed in a virtual asset)	Balance at the beginning of the reporting period (expressed in a virtual asset)	Balance at the end of the reporting period (expressed in a virtual asset)	Difference between balances

Plans for Future Development



- ❑ Assess possibilities of including questions related to crypto activities in regular statistical surveys;
- ❑ Active cooperation with NBG;
- ❑ Separate or ad-hoc survey for VASPs;
- ❑ Direct contact with various Business Associations.





Thank you for your attention!

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Reliable Data for Right Decisions!