Consumer Counselor

Insurance Information for Michigan Consumers

Virtual Currency: What Consumers Need to Know

The increased interest in virtual currency and other payments innovations has led to the rapid emergence of different types of currencies and payments mechanisms. As these are released into the marketplace, it is important for consumers and investors to educate themselves with accurate information to make informed decisions about this innovative and evolving industry.

What is Virtual Currency?

Virtual currency is an electronic medium of exchange that does not have all the attributes of real currencies. Virtual currencies include cryptocurrencies, such as bitcoin and litecoin, which are not legal tender and are not issued or backed by any central bank or governmental authority. Virtual currencies have legitimate purposes and can be purchased, sold, and exchanged with other types of virtual currencies or real currencies like the U.S. dollar. This can happen through various mechanisms such as exchangers, administrators, or merchants that are willing to accept virtual currencies in lieu of real currency.

What Should a Consumer Consider?

- **Virtual currencies are volatile in value.**
  Virtual currencies are not backed by a central bank and are highly volatile with the potential for complete loss of value. This may affect investors, as well as consumers using virtual currencies as a means of payment. Virtual currency volatility also may make securities offerings tied to these currencies unsuitable for most investors.

- **Virtual currencies can be stolen or otherwise subject to loss.**
  There is the potential for consumers to incur financial losses if an account is not maintained in a secure manner. Currently, most virtual accounts or "wallets" – unlike funds held in U.S. banks or credit unions – are not insured against loss. There is no way to reverse virtual currency transactions.

- **Virtual currencies have been connected to criminal activities.**
  Like other forms of payment, virtual currencies and virtual currency exchanges have been used to fund illicit activities. Legitimate customers of virtual currencies may be unable to access accounts if an exchange is shut down as part of a criminal investigation or for any other reason.

- **Virtual currencies and companies dealing in virtual currencies may or may not be regulated.**
  State and federal regulators are evaluating and developing approaches to regulating virtual currencies and companies that deal in virtual currencies.

  An administrator or exchanger is a money transmitter under federal regulations and should be registered as a money services business (MSB).

- **Virtual currency transactions may be taxable.**
  For federal tax purposes, the IRS has announced that virtual currency is treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency. This includes determining the fair market value of virtual currency in U.S. dollars as of the date of payment or receipt, as well as any gain or loss incurred. For more information, go to www.irs.gov/uac/Newsroom/IRS-Virtual-Currency-Guidance.

Do Your Homework

Consumers considering the use of virtual currencies should research any company offering services related to virtual currencies. This includes exchanges, platforms, administrators, sellers, or ATMs. There are a variety of sources of information available:

Consumers can contact the Department of Insurance and Financial Services (DIFS) for general information about virtual currency.	Investors should check with the Corporations, Securities & Commercial Licensing Division in the Department of Licensing and Regulatory Affairs (LARA) for information about investments involving digital currency.	Consumers looking for further information or guidance can contact the Attorney General's Consumer Protection Division.
DIFS 877-999-6442 DIFSINFO@michigan.gov www.michigan.gov/difs	**LARA Bureau of Corporations, Securities & Commercial Licensing** 517-241-6345 bcs-sec-info@michigan.gov www.michigan.gov/securities	**Attorney General Consumer Protection Division** 517-373-1140 miag@michigan.gov www.michigan.gov/ag

Consumers may check if a virtual currency exchanger or administrator is registered as a money services business with the federal Financial Crimes Enforcement Network (FinCEN) at: www.fincen.gov/msb-state-selector.

About DIFS

The mission of the Michigan Department of Insurance and Financial Services is to ensure access to safe and secure insurance and financial services fundamental for the opportunity, security and success of Michigan residents, while fostering economic growth and sustainability in both industries. In addition, the Department provides consumer protection, outreach, and financial literacy and education services to Michigan citizens. For more information please contact DIFS at 877-999-6442 or visit www.michigan.gov/DIFS.