



Blockchain & Cryptocurrency Regulation

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Government attitude and definition

Over the past few years, France has been at the forefront of the blockchain revolution in the European Union (“EU”), while the French Government has gradually established a favourable legal framework for initial coin offerings (“ICOs”), in collaboration with various players in the French crypto ecosystem.

As early as April 2016, France became the first country to recognise blockchain technology in the field of cash vouchers, also called “*minibons*”, a particular type of promissory note primarily used in crowd-lending transactions, by allowing issuers to register *minibons* directly into the blockchain.

In October 2017, the French Financial Market Authority (the “AMF”) launched a unique “digital-asset fundraising support and research programme” named UNICORN (for “Universal Node to ICO’s Research & Network”), to support and analyse ICOs, which operates similarly to a “sandbox” programme (see **Promotion and testing**, below).

In December 2017, France adopted a specific ordinance to become the first country to authorise the registration and transfer of unlisted securities through the use of blockchain technology.

In March 2018, Bruno Le Maire, the French Minister of the Economy, declared that he wanted Paris to become the capital of ICOs, through the implementation of a very innovative optional legal framework governing ICOs. Following this announcement, the French Strategy and Prospective General Commission (“*France Stratégie*”) published a report, in June 2018, relating to blockchain and cryptocurrencies and proposing several reforms to enable the sound development of this technology in France.

In December 2018, France adopted a decree implementing the specific conditions under which unlisted securities may be registered and transferred using blockchain technology, thereby paving the way for the development of security tokens offerings in France.

In terms of personal taxation, following a decision rendered in April 2018 by France’s highest administrative court (*Conseil d’état*) which lightened the tax burden on profits resulting from cryptocurrency transactions, the 2019 Finance Act introduced an even more favourable flat-tax rate of 30% (including social contributions) (see **Taxation**).

In April 2019, in line with the feedback received following a public consultation on ICOs and crypto-assets launched by the AMF, the draft “Pacte” bill (the “**Pacte Act**”) finally established an innovative *ad hoc* legal framework governing ICOs and digital assets services providers (see **Sales regulation**).

In short, the French Parliament has adopted a favourable legal framework, and France currently stands out in the European Union as a “blockchain/crypto-friendly” jurisdiction, through a “soft touch” approach favouring innovation and entrepreneurial projects.

This friendly position does not mean that France considers cryptocurrencies (none of which are backed by the French Government or the European Central Bank) as “real money” or otherwise gives them equal standing with domestic or foreign fiat currencies. In March 2018, the French Central Bank (*Banque de France*) published a paper regarding the main issues, risks and perspectives raised by Bitcoin and other cryptocurrencies, in which it focuses on the reasons why “cryptocurrencies” cannot be qualified as such. As a result, the French Central Bank considered the term “cryptocurrency” to be unsuitable and that the term “crypto-asset” would be preferable instead. Following such publication, the French regulatory authorities have started using the words “crypto-asset” or “digital asset”, delineating the fundamental difference to “real money” or “fiat currencies”.

In particular, the French Central Bank explained that “crypto-assets” do not fulfil the customary roles of fiat currencies because: (i) they are too volatile to be used as “units of account” (*unité de compte*); (ii) they are not as efficient as fiat currencies (they are difficult to use, there are high transaction fees and there is no guarantee against fraud); and (iii) they have no intrinsic value and hence cannot be used as safe reserves.

The French Central Bank also emphasised that, pursuant to the French financial and monetary code, the only currency in France is the Euro and therefore “crypto-assets” may not be considered as either a means of payment or electronic money under French law. This is logical given that “crypto-assets” are not issued against a cash deposit. As a result, under French law, it is impossible to require someone to accept “crypto-assets” as payment, and “crypto-assets” do not carry a repayment guarantee at any time and at face value in the event of unauthorised payment, in each case in contrast to fiat currencies.

In this article, the word “crypto-assets”, which is the term used by the French regulators, will be used instead of “cryptocurrencies”, other than in the titles.

Cryptocurrency regulation

As discussed below (see **Sales regulation**), with the enactment of the Pacte Act, France has decided to implement specific regulations governing crypto-assets that do not constitute financial instruments. Unless crypto-assets fall within the previously existing legal framework governing securities offerings and trading, and in accordance with an analysis to be made on a case-by-case basis depending on the rights and obligations conferred, crypto-assets now fall under the optional regime for public offerings of tokens established by the Pacte Act and the related regulation applicable to the secondary market.

Sales regulation

In October 2017, in view of regulating fundraising activity based on crypto-assets and blockchain technology, the AMF launched (i) a public consultation on ICOs to gather the views of stakeholders on the different means of supervision, and (ii) a “digital-asset fundraising support and research programme” to support and analyse these transactions, named UNICORN.

At the time of this consultation, the AMF carried out an initial high-level study of these transactions and their legal implications and found that while some of the ICOs identified may fall within existing legal provisions (such as the regulation applicable to intermediaries

in miscellaneous assets, the public offering of financial instruments, or managers of alternative investment funds), most of these issuances would actually fall outside of the scope of any regulation.

According to the AMF, this analysis must be made on a case-by-case basis depending on the rights and obligations attached to each crypto-asset. In particular, if such rights and obligations prove to be close to those of a security, *i.e.* because they carry financial and/or political rights, such as dividend and/or voting rights, respectively, the AMF may qualify such crypto-asset as a security. In this case, the sale of such crypto-asset would have to comply with French securities laws, including notably the obligation to publish a prospectus under certain conditions.

Given such uncertainties for issuers, the AMF proposed three options for the supervision of future ICOs: (i) promote best practices without changing existing law; (ii) extend the scope of existing law to treat ICOs as public offerings of securities; and (iii) propose an *ad hoc* regime adapted to ICOs.

In February 2018, the AMF published a summary of the responses received following the public consultation on ICOs, pursuant to which a large majority of respondents expressed strong support for the establishment of an appropriate legal framework for this new type of fundraising method.

Taking these answers into consideration, the Pacte Act adopted by the Parliament on April 11, 2019 introduced this new legal framework. The Pacte Act was reviewed and approved by the French Constitutional Court (*Conseil constitutionnel*), promulgated by the French President and then published in the Official Journal (*Journal Officiel*). The Pacte Act came into force on May 24, 2019 and the provisions relating to crypto-assets are currently applicable.

This framework comprises an optional visa for ICOs open to companies established or incorporated in France wishing to ensure that their contemplated ICO is fully compliant with French law and, in particular, will not be subject to the regime applicable to financial instruments.

Under this new legal framework, issuers are free to decide whether to implement a regulated ICO, subject to the AMF approval, or to proceed without the French regulator's approval. In order to obtain the AMF visa, issuers have to comply with the obligations below provided by the Pacte Act:

- the issuers shall be legal entities established or incorporated in France;
- the issuers shall provide their subscribers with an information document containing any relevant information about the offering, the issuer, the rights attached to the tokens, the underlying project and its related risks, with such information being accurate, clear and not misleading; and
- the issuers shall set up the means to monitor and secure the assets collected as part of the offering, in compliance with the rules on anti-money laundering combating financing terrorism (“AML/CFT”) and know your customer (“KYC”).

The provisions described herein are supplemented and clarified through amendments to the General Regulations of the AMF which have been approved by the French Government's decree dated May 27, 2019. The implementing regulations include the following provisions:

- The AMF will have 20 days from receipt of a completed application to decide whether or not to grant its visa. The visa is granted to one offering only and will be effective for the duration of the relevant offering, which may not exceed six months.

- The information document must include, at a minimum: (1) a description of the token offering, the issuer, the rationale for the token offering and the intended use of the proceeds raised in the offering; (2) a description of the rights attached to the tokens and the conditions and the means to exercise those rights; (3) a description of the terms of the offering (*i.e.* number of tokens to be issued, subscription terms, soft cap and hard cap); (4) the technical details of how the offering will be performed; (5) a description of the main characteristics of the issuer and the persons involved in the structuring and development of the project; (6) the key risks associated with the issuer, the tokens, the offering and its achievement; and (7) an indication of the accounting treatment for the tokens issued and whether the issuer is or intends to be accompanied by a statutory auditor.
- The information document must also include (1) a disclaimer on the scope of the AMF visa and the limited nature of its review, as well as (2) a global warning with respect to the inherent risks associated with any investment in an ICO, which must also be included in any promotional communications.
- Issuers may optionally attach to the information document the source code for the issuance (*i.e.* a computer program containing the instructions to execute the issuance) or conduct an audit of such source code and describe its conclusions.
- Issuers must inform the subscribers of any fact or change likely to have a significant impact on their investment decision that arises after delivery of the visa but before the closing of the offering. However, no right of withdrawal is granted to them in such cases.
- With regard to the means set up to monitor and secure the assets collected as part of the offering, issuers must offer sufficient guarantees in terms of reliability, operability and efficiency. In this respect, the AMF has given three examples of solutions that it considers satisfactory, through the implementation of (i) an escrow agreement with a professional, (ii) a multiple signature system, or (iii) a smart contract.
- Within two business days following completion of the offering, the issuer is required to publish a press release setting forth the results of the offer, the contents of which will be specified in an AMF instruction to be published in due course.

In order to ensure complete transparency and publicity of this optional visa, the AMF will make public a “white list” of approved ICOs. Such an initiative is likely to promote the development of ICOs: this institutional endorsement will encourage new issuers to launch their offerings and potential investors to subscribe to such offerings.

However, the EU may cast a shadow over such an innovative approach. On November 13, 2017, the European Securities and Markets Authority (“**ESMA**”) published a warning to companies involved in ICOs as issuers on the potential qualification that crypto-assets could receive, pursuant to which these companies could be involved in offering “transferable securities” to the public. Such qualification would trigger the application of certain EU securities laws and regulations, such as the Prospectus Directive/Regulation, the Markets in Financial Instruments Directive (“**MiFID**”), the Alternative Investment Fund Managers Directive and the fifth Anti-Money Laundering Directive. ESMA has not published any further information regarding the qualification of crypto-assets.

On October 19, 2018, the Securities and Markets Stakeholders Group (“**SMSG**”) published a report on ICOs and crypto-assets advising ESMA on the steps that should be taken to mitigate the risks of ICOs and crypto-assets, especially for investors. The SMSG urged

ESMA to (i) provide guidelines on the interpretation of the MiFID definitions of “transferable securities” and “commodities” in order to achieve supervisory convergence, (ii) send a letter to the European Commission asking it to consider adding tokens used as investment products to the MiFID list of financial instruments, and (iii) provide guidelines for national authorities operating or wishing to operate a sandbox or innovation hub.

Taxation

In December 2018, the French National Accounting Standards Authority (*Autorité des normes comptables* or “ANC”) released specific public guidance clarifying the accounting and tax treatment of ICO proceeds in France. For taxation purposes, a distinction should be made between the rules governing token issuers and those applying to subscribers.

The accounting treatment of ICO proceeds depends on the rights and obligations attached to the tokens offered, and accordingly may be registered under three different accounting categories. In all cases, the tokens are registered on their issuance date for their subscription price. As a result, the tax treatment of ICO proceeds would be as follows:

- the proceeds from tokens registered under “debt and other liabilities” (*emprunts et dettes assimilées*) shall not be subject to corporate tax;
- the proceeds from tokens registered under “deferred revenues” (*produits constatés d’avance*) shall be subject to corporate tax as revenues are gradually recorded, which results in taxation being phased over several years; and
- the proceeds from tokens registered under “revenues” (*produits*) shall be subject to immediate taxation under corporate tax.

For profits made in 2019, the rate of French corporate tax is 28% up to profits of €500,000 and 31% above this amount plus surtaxes of 3.3%. Such French corporate tax will be progressively reduced to 25% plus surtaxes in 2022. Such tax is payable upon closing of the financial year during which the ICO has been completed (*i.e.*, between 1 and 12 months following the ICO in most cases, and up to 18–24 months following the ICO for a newly incorporated ICO issuer).

Under the same interpretation, the sale of cryptocurrencies would qualify as a “sale of goods and/or services” under Directive 2006/112/EC on value-added tax (“VAT”), transposed into each EU country’s domestic law, and therefore the sale of crypto-assets to EU purchasers will be subject to VAT, the rate of which is currently 20% in France. Note, however, that the above-mentioned treatment does not apply to cryptocurrencies which qualify or could be qualified as “security tokens”, which are subject to the tax regime applicable to the sale of securities, *i.e.* subject to registration fees only (at a 0.1% rate) and excluded from VAT.

With respect to personal taxation, the 2019 Finance Act introduced a *sui generis* flat rate tax of 30% (including social contributions) on capital gains realised by individuals upon the occasional purchase/sale of crypto-assets. This rate is the same as the one that applies to securities’ capital gains (dividends, shares, etc.). In addition, under this new regime, the trade of one crypto-asset against another crypto-asset is considered as a simple non-taxable interlayer transaction. Any losses incurred may only be offset against capital gains of a similar nature recorded within the same year.

However, certain gains are excluded from this tax treatment and therefore remain subject to income tax, the rate of which is currently up to 45% (plus social contributions which are currently set at 17.2%). These include:

- gains resulting from the taxpayer’s participation in the creation and functioning of the bitcoin system, *i.e.* gains resulting from “mining” activities; and

- gains resulting from the recurring acquisition and sale of bitcoins, thus materialising the existence of a commercial activity, e.g. gains resulting from professional trading activities.

Money transmission laws and anti-money laundering requirements

In March 2018, the French Central Bank (*Banque de France*), together with the French Prudential Authority (*Autorité de contrôle prudentiel et de résolution* or “**ACPR**”), proposed the introduction of a new status for providers of services related to crypto-assets, as well as new obligations on such providers with respect to the security of transactions and the protection of their clients. The French Government followed their recommendation and established a new regulatory framework for “digital assets services providers” (*prestataires de services sur actifs numériques* or “**DASPs**”) through the Pacte Act.

Digital assets services comprise the following:

1. custody of private cryptographic keys for third parties;
2. trade of digital assets with fiat currencies;
3. trade of digital assets with other digital assets;
4. operation of a digital assets trading platform; and
5. (i) receipt and transmission of orders on behalf of third parties, (ii) portfolio management on behalf of third parties, (iii) investment advice to digital assets purchasers, (iv) underwriting of digital assets, and (v) making guaranteed and non-guaranteed investments in digital assets.

In order to provide the services mentioned in points 1 and 2 above, the service provider must be registered with the AMF as a DASP and be subject to the approval of the ACPR. The exercise of these services is prohibited for any unregistered person. The AMF will assess in particular the reputation and professional qualifications of the directors and beneficial owners of the relevant DASP and will verify that they have adequate AML/CFT procedures in place, as described below.

In addition, any service provider that performs one (or more) of the services listed above may or may not decide to apply for an optional visa from the AMF. To obtain this quality label, DASPs will have to obtain professional liability insurance (or comply with the capital requirements set forth in the General Regulations of the AMF), implement adequate security procedures, an internal control system and conflict check policies and establish a resilient IT system.

Once DASPs are approved by the AMF, they must comply with a set of obligations that depend on the type of services provided. The AMF will publish the list of registered providers and the list of approved DASPs and the services they are approved to provide.

A decree of the French Government and amendments to the General Regulations of the AMF to be published in due course will provide the definitions of each service, the registration conditions, the common conditions for performing one or more services, the common approval conditions and the specific approval conditions for each of the services.

Until the entry into force of the Pacte Act, compliance with France’s anti-money laundering (“**AML**”) rules, including the related KYC requirements, was only required for platforms converting fiat currencies into crypto-assets or vice versa (thereby acting as an intermediary between the purchaser and the seller).

In May 2018, the EU Member States adopted an amendment to Directive (EU) 2015/849 of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the “**AML Directive**”), to subject crypto-asset exchange platforms and custodian wallet providers to the AML and terrorism financing obligations (in particular to KYC obligations), in line with traditional financial intermediaries. This amendment did not impact French law since French crypto-asset/fiat exchange platforms were already subject to AML requirements and KYC obligations. However, the amendment to the AML Directive extended these obligations throughout the EU, thereby ensuring the implementation of adequate safeguards and making it impossible for players to perform regulatory arbitrage on this basis within the EU.

Since the Pacte Act became applicable, compliance with AML and KYC requirements is necessary to obtain an optional visa for ICOs. Moreover, DASPs providing the above-mentioned services in points 1 and 2 and all those applying for the visa from the AMF, on a voluntary basis, have to comply with AML and KYC requirements. These requirements are therefore applicable to both primary and secondary markets.

Under French and EU law, the AML requirements primarily cover the following:

- *customer due diligence obligations*: platforms are required to verify the identity and, in certain cases, the “effective beneficiary”, *i.e.* the actual individuals behind a legal entity, whether it is a company, a foundation or a trust, and the origin of the money used throughout the platforms; and
- *reporting and information obligations*: if the due diligence obligations lead to suspicion about an individual or a legal entity, platforms are required to report the situation to an authority specifically in charge of gathering such reports made by cryptocurrency platforms.

Finally, we note that, due to the AML and KYC challenges raised by the holding of crypto-assets, French banks have been reluctant to open bank accounts to token issuers, which has hindered the development of ICOs and crypto/blockchain projects. The Pacte Act addresses this issue by providing that financial institutions must establish objective, non-discriminatory and proportionate rules governing access to bank accounts for token issuers which have obtained the AMF visa. In the event a financial institution denies any such access, it will have to inform the ACPR of the reasons for such denial. A forthcoming decree will specify the remedies and time limits applicable in any such case.

Promotion and testing

In France, as discussed above, the approach adopted by the AMF is very close to a “sandbox” following the launch, in October 2017, of a public consultation relating to ICOs and the above-mentioned UNICORN programme to support and analyse these transactions (see **Sales regulation**).

As part of this consultation, the AMF organised meetings with several players of the blockchain/crypto ecosystem and received 82 contributions from them and other specialists in this field. In February 2018, as part of the UNICORN programme, the AMF announced that it had advised about 15 companies during the first two months of the programme (around 50% of blockchain-related projects), and that the total amount raised or planned to be raised by these project developers was around €350 million.

In November 2018, the AMF published a study on ICOs in France and worldwide and noted that the following trends can be observed: (i) at the global level, this type of financing

remains marginal, representing a total of €19.4 billion since 2014, with France accounting for a modest share (€89 million was raised by 15 issuers); and (ii) in the French market, ICOs are being considered by companies aiming to strengthen their community and to avoid capital dilution.

Overall, the AMF demonstrated an awareness about the importance of these topics and a willingness to get in touch and learn from the ecosystem to shape a specifically adapted legal framework.

In addition, at the European level, in April 2018, most of the European countries, including France, signed a declaration relating to the establishment of a European Blockchain Partnership, intended to act as a vehicle to foster cooperation among Member States in the exchange of technical and regulatory expertise. This declaration, and the partnership that it creates, follows the launch in February 2018 of the EU Blockchain Observatory and Forum, designed to help cultivate new blockchain opportunities in Europe. The stated goal of the partnership is to ensure that Europe continues to play a leading role in the development and roll-out of blockchain technologies.

In relation to promotion, the Pacte Act provides that only ICO issuers which have obtained the AMF visa and the approved DASPs are allowed to engage in solicitation activities (*activités de démarchage*) to support their ICO or service(s).

France is therefore keen on promoting research and investment in cryptocurrency and blockchain-related projects through specific programmes and actions run by governmental authorities.

Ownership and licensing requirements

Under French law, there are very few investment funds which have invested all or even part of their funds in crypto-assets. This is principally explained by the fact that French law, in particular, and EU law in general, were not well-suited to enable investment funds to invest in crypto-assets.

French Undertakings for Collective Investment in Transferable Securities (“UCITS”, otherwise known as *OPCVM* in France), which are open for distribution to retail clients, are constrained by law to invest in a specific restricted list of assets, into which crypto-assets do not fall. For this reason, French UCITS cannot invest in crypto-assets.

French Alternative Investment Funds (“AIF”, otherwise known as *FIA* in France), which are open to professional investors only (institutional investors, large firms and investors with sufficient financial experience and competence and also retail clients under certain specific conditions) and therefore are less regulated than UCITS, are less constrained with respect to the assets in which they may invest. However, one of the conditions laid down by the French financial and monetary code is that the title to such asset must be “*evidenced by a mechanism that is recognised under French law*”. In the present case, the fact that the title to a crypto-asset is evidenced by registration into a blockchain is not – yet – recognised under French law and therefore an AIF cannot invest in crypto-assets either. Nevertheless, French law has already recognised the possibility of registering certain assets into a blockchain, namely for cash vouchers, *i.e.* “*minibons*”, and unlisted securities, and may evolve in the future to also recognise a crypto-asset registered into a blockchain.

Before the entry into force of the Pacte Act, the only option left for a French investment fund to invest directly in crypto-assets was to use a very specific French vehicle known as “other alternative investment funds” (“**Other AIF**”, otherwise known as *Autres FIA* in

France). This vehicle may be either regulated *ex ante* by the AMF and open to both professional and non-professional investors, or merely declared *ex post* by the AMF, in which case it is open to professional investors only. In this respect, for an Other AIF to be regulated by the AMF and therefore be open for distribution to both professional and non-professional investors, the Other AIF manager must obtain a portfolio management company licence from the AMF.

However, following the entry into force of the aforementioned Pacte Act, two types of investment funds are now officially allowed to invest part of their funds into crypto-assets: (i) professional specialised investment funds (*fonds professionnels spécialisés* or “**FPSs**”), subject to compliance with the liquidity and valuation rules applicable to them; and (ii) professional private equity investment funds (*fonds professionnel de capital investissement* or “**FPCIs**”), subject to a limit of 20% of their assets.

FPSs are collective investment funds that are not subject to authorisation but must be declared to the AMF and whose main purpose is to invest in various types of assets, including unlisted companies and real estate assets. They may therefore adopt investment rules that differ from those of approved funds. These funds are open to professional investors, to retail clients investing through discretionary portfolios and to any investor investing at least €100,000.

This evolution also enables insurers to offer life insurance policies based on digital assets, through FPSs, and the Pacte Act amended the French Insurance Code to allow FPSs to be included in life insurance account units. Although certain conditions regarding the investor’s financial situation or experience, which will be specified by decree, must be complied with, there is no longer a limit on the assets in which PSIFs eligible for life insurance can invest. FPCIs are investment vehicles designed to invest in unlisted assets. From a regulatory point of view, at least 50% of their assets must consist of (i) unlisted securities on French or foreign regulated markets, or (ii) shares in limited liability companies.

Many FPCIs are for a restricted group of investors (professionals or investors with sufficient financial experience and competence) and are not advertised. These funds sometimes request “lighter approval” from the AMF and do not always request authorisation to conduct a public offering. Some FPCIs are intended to address a wider audience and must seek the approval of the AMF to be allowed to advertise and solicit potential investors. In such case, there are specific rules governing the conditions and limits of the assets’ holding.

Mining

“Mining” bitcoin and other crypto-assets is permitted and unregulated under French law. However, the revenues generated by “mining” activities are submitted to a specific taxation regime (see **Taxation**).

Border restrictions and declaration

There is no specific border restriction or obligation to declare crypto-asset holdings under French law.

Reporting requirements

Under French law, there is no reporting requirement for crypto-asset payments made in excess of a certain value.

Estate planning and testamentary succession

Under French law, there is no special treatment for crypto-assets for the purposes of estate planning and testamentary succession, and crypto-assets should be treated like any other assets in such situations.

* * *

Acknowledgment

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