

Article Information

Authors: Jade McGlynn, Luke Misthos, Michael Bacina

Service: Blockchain, FinTech

Sector: Financial Services, IT & Telecommunications

Blockchain Bites: AU: Cryptocurrency is here for good, Visa ‘plugs in’ to the NFT market with its purchase of a \$150K CryptoPunk, Deloitte Survey Predicts Digital Asset Surge, Microsoft Proposes New Anti-Pirate System, Cash Remains Preferred Currency For Criminals

Michael Bacina, Jade McGlynn and Luke Misthos of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

Cryptocurrency is here for good

Australia has shown that the regulatory race to create a transparent and coherent framework for digital currencies is underway. [ASIC’s consultation](#), [Government funding](#) and the [Senate Committee on Australia as a Technology and Finance Centre \(Committee\)](#) consultation all show that Australia is on its way to important regulatory guidance. The Committee’s report, set to be released in October, is central to this movement.

The report will focus on the size and scope for Australian businesses and consumers to grow into a stronger tech and finance centre. In Senator Bragg’s [recent piece in leading newspaper The Australian](#), he recognises that cryptocurrency is here for good. The Senator also expressed the value that cryptocurrencies and decentralised finance (DeFi) can bring to Australia.

The combined market capitalisation of all 11,145 cryptocurrencies is roughly equivalent to the nominal GDP of Canada.

What’s more impressive is that DeFi accounts for AUD\$180bn in assets which, according to Coinbase co-founder Fred Ehrsam, is only 1/10 of 1% of its potential value.

But the market must have protections against scams, fraud, uncertainty and hesitation. In addition, Senator Bragg addresses the unusual position of the industry where participants are well and truly calling for government intervention. Specifically, Bragg stated “[I have never heard so many people cry out for regulation!](#)”. And thus this presents the opportunity that:

If Australia addresses this gap in the right way, we could attract an enormous amount of new investment and jobs.

While one in five Australian’s own cryptocurrency, according to a survey by Finder, many still believe the risk to consumers is far too great for regulation not to be in place. Notwithstanding the dynamic nature of regulation in this space, consumers are exposed to DeFi, blockchain and [crypto markets on a near daily basis](#).

Whilst Senator Bragg cites that the emergence of cryptocurrencies were forged from a foundation of turning away from

middlemen and intermediation (potentially being the catalyst for some consumer hesitation) – this should not continue to hinder regulators from embracing the opportunities that may flourish in a well regulated system. In turn, this is not a matter of choice but necessity to limit regulatory arbitrage becoming a feature of fintechs in the sector.

We applaud the continued public stance of Bragg in championing progressive moves towards blockchain regulation after the [recent open call on reddit for comments](#). Like the rest of the blockchain industry we await to see the recommendations for how these obstacles should be addressed in the Committee’s report in October.

Credit-card giant Visa ‘plugs in’ to the NFT market with its purchase of a \$150K CryptoPunk

While the launch of a crypto-linked credit card with impressive Australian start-up CryptoSpend is [just around the corner](#), Visa has stepped into the realm of NFTs through [its recent purchase](#) of a female CryptoPunk, [CryptoPunk 7610](#), for USD\$150,000.

Known as one of the earliest NFTs, CryptoPunks which only have about 10,000 in circulation, are highly sought-after NFTs. CryptoPunk 7610 specifically is one of 3,840 “female” punks which, in the words of [Marketplace Larva Labs](#), “sports a mohawk, clown-green eyes and hot lipstick”.

If you could use a touch up on what NFTs are, we suggest you brush up on your [NFT basics](#). NFTs are an increasingly growing market, and as Visa’s head of crypto, Cuy Sheffield, recently shared in a company [blog post](#):

NFTs will play an important role in the future of retail, social media, entertainment and commerce.

Understanding this, it’s easy to connect the dots on why Visa felt motivated to purchase the popular NFT. *“To help our clients and partners participate, we need a firsthand understanding of the infrastructure requirements for a global brand to purchase, store, and leverage an NFT”*, Sheffield commented.

Sheffield also mentioned that with Visa’s focus being on the future, this Cryptopunk purchase was “only the beginning” of Visa’s work in the NFT space.

When pressed about what makes him excited about NFTs, Sheffield promoted that amongst other things, NFTs have the ability to elevate the “creator economy” and lower the barrier to entry for creatives who earn a living through digital commerce (think graphic designers, social media influencers and digital artists) – and he is right. With NFTs like CryptoPunks on the market, we can see the cultural movement creating a new kind of social commerce which empowers creators and collectors.

With August sales of CryptoPunks already having reached [\\$332 million](#) – doubling last month’s average (according to website [Coindesk](#)), Visa has already seen their investment soar. We look forward to observing the next step Visa and other crypto-curious companies may take to recognise and commence their participation in the burgeoning NFT market.

Decade of Dominance? Deloitte Survey Predicts Digital Asset Surge

[Deloitte’s 2021 Global Blockchain Survey](#) suggests cryptocurrencies and digital assets will [continue its disruption](#) into the financial services industry. Importantly, of the 1,280 senior executives and practitioners surveyed worldwide, 76 per cent believe digital assets will replace fiat currencies in the next five to ten years.

The majority of participants believe digital assets will impact their organisations through custody (63%), new payment channels or types (63%) and by diversifying portfolios (57%). The survey notes, however, the enablement of these developments is contingent upon “a new kind of technical infrastructure as well as new processes and procedures”.

This sentiment was reflected in the survey results, with 63 per cent of participants outlining [regulatory challenges](#) as one of the major threats to the use and acceptance of digital assets globally. This was surpassed only by the [cybersecurity threat](#), with 71 per cent of participants believing it to be the biggest obstacle to further worldwide implementation.

The report estimates around \$2 trillion USD associated with cross-border money movement in 2020 and suggests this revenue will likely shrink as entities become increasingly able to [conduct similar transactions for free or at a smaller cost](#).

While the survey cannot decidedly determine the full future implications digital assets may have on the global economy, it expects these shifts to be highly disruptive to financial services as a digital-asset based financial model ushers in a new era of economic infrastructure.

Arrrrrg-us: Microsoft Proposes New Anti-Pirate System

Technology giant Microsoft have proposed using the transparency of blockchain technology as a potential solution to fight digital piracy. In a [collaborative paper](#) with Alibaba Group and Carnegie Mellon University, Microsoft have suggested a fully transparent incentive system called Argus (we assume pronounced Arrrrrrg-gus) which will operate on the Ethereum network. Microsoft also utilised the Ethereum blockchain last year to create a [Baseline protocol](#).

Anti-piracy relies on collecting data from an open and anonymous population of whistleblowers, so incentivising credible reports is part of the challenge for incentivizing reports. The paper identifies a lack of transparency with respect to incentive, fairness and credibility-criteria as the major limitations of current anti-piracy campaigns.

Argus, on the other hand, is underpinned by blockchain technology and remedies these issues by leveraging the technology to provide a trustless incentive-based system. This allows anonymity for piracy reporters at the same time as leveraging the transparency of public blockchain systems. Microsoft has been ahead of the curb with respect to digital assets having [accepted Bitcoin as payment in 2014](#) and, more recently, adding it as a [currency on its Excel platform](#).

Argus is built on four pillars: full transparency, incentive, information hiding and optimisation. When an owner of a product distributes content to licensees, each copy is embedded with a unique hash known as a watermark. The paper assumes the watermark cannot be removed without significant damage to the content. This watermark allows the content to be traced back to the original source of infringement.

The incentive component of the system is predicated on aligning the interests of the owner and informers. Owners seek good-faith reports regarding pirated material while informers generally seek financial rewards. To consolidate these interests, Argus rewards informers more for timely reports, provides guaranteed amounts and prevents Sybil attacks (where the informer uses multiple forged identities to claim a higher reward).

To address concerns about Ethereum 'gas' network fees, the Argus will be bundling transactions to incur 'only a negligible on-chain cost equivalent to sending 14 ETH-transfer transactions per report on the public Ethereum blockchain'.

This project represents a fascinating blend of privacy and public information using blockchain to tackle a really serious and ongoing software problem.

Cash Remains Preferred Currency For Criminals

There has been endless speculation surrounding the safety and legitimacy of cryptocurrencies in recent years, with particular emphasis on their use for criminal activity. For many, cryptocurrencies are nothing but lawless high-speed rollercoasters brimming with fraud and scamming activity.

[As Congressman Tom Emmer told president](#) of the Federal Reserve Bank of Minneapolis, this is not the case. President Neel Kashkari said that cryptocurrencies are "95 percent fraud, hype, noise and confusion" and that he has not seen any uses other than "funding illicit activities like drugs and prostitution".

The Congressman fired back at Kashkari tweeting:

Crypto-based crime represented only 0.34% of the entire transaction volume in 2020. Unfortunately, most crime is still conducted with the cash you print.

Despite this, many individuals and agencies seek to warn and in some cases deter consumers from crypto assets. For one, the US Securities and Exchange Commission's (SEC) new chair, Gary Gensler likened the market to '[the wild west](#)'.

It is becoming increasingly clear, however, that despite the uncertainty of the general population regarding cryptocurrencies, [reports have shown](#) crypto related criminal activity rapidly decreased in 2020 and is significantly lower than crimes that utilise traditional fiat currencies.

The amount of digital currency transactions associated with money laundering, for example, is far lower than that of suspected money laundering in the traditional financial sector. Individuals and agencies often omit the ease by which companies like Chainalysis can [track digital money laundering](#) and other criminal activities on the blockchain network. Their data likewise indicates the low rates of cryptocurrency use for money laundering and other crimes.

Crimes like theft, drug trafficking and money laundering are all traceable and only compile a fraction of digital transaction volume. Earlier this month, [when hackers stole \\$823 million AUD](#) from PolyNetwork, blockchain security firm SlowMist traced the hackers email, IP address and device fingerprints within a matter of hours. 48 hours later almost all the funds

were returned with the remaining \$44.8 million having been frozen to prevent laundering.

The fear of the unknown tends to motivate agencies and individuals in attempts to 'protect' consumers with warnings and stay-away directions. It is easier to cast out a new technology than to learn and regulate it. [With new systems and technologies being created](#) every day to protect consumers and trace criminals and an expanding regulatory regime, it is becoming more and more meaningless to consider digital assets 'the wild west'. Additionally, with the traceability of digital currencies cash will continue to remain more useful to criminals and for money laundering and terrorist financing.