

Article Information

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Blockchain Bites: The Senator for Blockchain?, US Federal Reserve Chairman Hints at CBDC Action, China's Crypto Crackdown, HSBC Report: CBDC could be better than stablecoins, NZ Reserve Bank seeks public opinion on CBDCs

Michael Bacina, Barbara Vrettos, 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.

The Senator for Blockchain?

Senator Andrew Bragg, a highly anticipated speaker at the recent [NFT Fest](#), has [once again](#) sent a strong message of support for the regulation of digital assets in Australia. In opening the event, Sen. Bragg addressed his hopes of positioning Australia as a 'crypto hub' with robust policy guided by [three key objectives](#): consumer protection, investor promotion and market competition.

Bragg explained the reasoning behind the extended timeframe for the [Select Committee on Australia as a Technology and Financial Centre \(Committee\)](#), namely that more time was needed to accurately:-

1. Assess the opportunities and threats under digital assets constituting an 'unique form of property right'; and
2. Understand how digital assets could fall under a more clear, contiguous and flexible policy framework.

After examining almost 100 submissions, chairing three public hearings and holding 6 months of inquiries in the midst of many global developments, Sen. [Bragg said](#):

While [the] window is closing every day, I do still believe Australia can be one of the biggest players in the game

The policy, which will be set out in a plan provided by the end of October, will look to strike:

a balance between bringing digital assets into the regulated world while preserving their dynamism

Sen. Bragg detailed how eyes were being cast overseas to model an appropriate regulatory framework to capture the potential for the sector. Specifically, Singapore is a standout and Australia will be aiming for a framework "[at least as good as Singapore](#)." In quick succession, Bragg indicated that he would recommend a licensing regime for consumer protection in relation to digital asset exchanges and that comparing Singapore and the UK to Australia's AUSTRAC lightweight registration process there is a clear need to "[ramp up and repurpose regulation to combat the very low threshold](#)" to the entry of bad actors, a reference to the fact that AUSTRAC registration does not involve any qualitative assessment of the strength of a digital currency exchange registering, but which is often touted by exchanges as an indication of strength or endorsement.

In closing, Sen. Bragg also highlighted that this pursuit was not to be done at the expense of environmental goals. The Senator recently [commented that](#) "*excluding any part of the economy from our next zero ambitions is a bad & lazy idea*" and the digital asset industry should be no exception.

The extent of the Committee's recommendations will be unveiled when the Report is released on **30 October 2021**.

US Federal Reserve Chairman Hints at CBDC Action

The US Federal Reserve has shown an intention to provide guidance on the potential issuance of an Central Bank Digital Currency (CBDC). Speaking at a Federal Open Market Committee (FOMC) press conference last week, Chairman Powell indicated the US Federal Reserve is looking at both technological and policy considerations to cover all bases with respect to CBDC issuance. The Chairman said:-

we're working proactively to evaluate whether to issue a CBDC and if so in what form

It appears the Federal Reserve understands the myriad of currencies and innovation that is occurring outside of the regulatory framework and is determining whether the issuance of a CBDC is in the best interest of US citizens.

The comments are a repeat of the Chairman's sentiment earlier this year where he labelled the US CBDC a "[high priority project](#)", however, reaffirmed that it is not a project the Federal Reserve is likely to rush. When asked whether he thought the US was falling behind, Powell said:

I don't think that we're behind, I think it's more important to do this right than to do it fast. We are the world's reserve currency.

A significant number of other countries, including [Switzerland](#), [Saudi Arabia and the United Arab Emirates](#) and most recently [China](#), have already moved to develop and implement their own CBDC.

The Boston Federal Reserve is spearheading the technology side of the initiative in a partnership with the Massachusetts Institute of Technology (MIT) to evaluate the benefits of a CBDC; benefits like providing faster international transactions and opening services to the unbanked.

Despite the Federal Reserve indicating it wishes to release a paper relating to CBDC's [towards the end of the year](#), Powell expressed concerns with the current regulatory landscape:

Where the public's money is concerned, we need to make sure that appropriate regulatory protections are in place, and today there ... are not in some cases.

(To listen to the full press conference you can visit [here](#), or skip to 50:28 for Powell's take on CBDC's)

China's Crypto Crackdown

The Peoples Republic of China's Central Bank has announced this week that all transactions of crypto-currencies are illegal. The news has effectively halted cryptocurrency and NFT transactions across the country which, before the ban, was one of the worlds largest crypto markets.

Although trading in digital currencies was already banned in China from 2009, online trading of digital currencies through foreign exchanges continued. However, the Peoples Bank of China has launched new restrictions amid a focus on tightening restrictions in 2021.

The crackdown, while significant, is hardly a surprise. Since digital currencies have started entering into the mainstream, China has banned banks and payment firms from [providing crypto related services](#) and [shut down a significant number of crypto miners](#) operating within the country. In 2019, China accounted for around 75 per cent of the worlds Bitcoin energy use; now that number is less than 46 per cent.

Due to the transparency of the blockchain network one lucky miner was observed [cashing out around USD\\$58m in Bitcoin](#) just hours before the Chinese Government announced the ban.

Although the country is flexing its regulatory powers, its government has still shown a [keen intention to produce a Central Bank Digital Yuan](#) and has been actively utilising [blockchain technology](#).

The harsh restrictions China has implemented over the past year has allowed other countries to step up and fill the void. Kazakhstan, for example, is now the third most important Bitcoin mining nation while the United States saw a near 17 per cent rise in its mining capabilities, which goes to show that in a globalised world a global and decentralised currency will

move where those who want to benefit from that currency are.

HSBC Report: CBDC could be better than stablecoins

[HSBC](#), a multinational British Bank with total assets of ~\$3 trillion, has praised CBDCs as the new form of digital money while criticising digital currencies and stablecoins due to a lack of regulatory oversight.

In [the report, authored by Mr Noel Quinn](#), HSBC Group Chief Executive Officer, HSBC recognised that CBDCs are a positive medium of exchange which, Mr Quinn argues does not pose any risk to consumers.

Mr Quinn said:

Central Bank Digital Currencies (CBDCs).. are legal tender backed by a central bank or government authority, which means they are transparent and stable - avoiding many of the risks associated with some other forms of digital money, particularly cryptocurrencies and some stablecoins.

The report goes on to argue that CBDC's planned fast cross border payments and settlements features could "*spur economic growth*" and "*fuel innovation across the financial sector*". Specifically, a near instant payment capability could lower the price of issuing and trading bonds and other securities as well as assist organisations with their fiscal and monetary policy objectives by creating a direct and cost effective way to make transfers to consumers.

While clearly in support of CBDCs, the report identifies hurdles which will need to be cleared before CBDCs are as safe and reliable as existing money, clarifying that before CBDCs can be adopted by the mainstream, they first need to be "*safe, efficient, and genuinely transformative*".

Mr Quinn also said:

Central banks and public authorities will need to consider the impact CBDCs could have on the supply of credit, market activity and financial stability. They will need to meet customer expectations for data privacy and protection, while enabling the mitigation of financial crime risks and withstanding cyber-attacks.

Despite these issues, HSCB asserts that these problems can be overcome by choosing the right model used for CBDCs. HSBC cites a hybrid model - also known as a two-tier model because the CBDC is a claim against the central bank while payment services and account management activity are managed by commercial banks, is "*by far the best design option.*" But when it comes to addressing the risks associated with cryptocurrency, the bank seems to be more skeptical, arguing that for stablecoins and cryptocurrencies to become as reliable as CBDCs, regulation would be needed.

Mr Quinn added:

Even then, only designs that are sufficiently well anchored to achieve price stability, and correspond with current approaches to financial crime prevention, are likely to be useful as a reliable and safe means of payment.

There is a spectrum of different CBDC approaches being taken, with China representing an extreme where the People's Bank of China has [declared a ban](#) on all cryptocurrencies and their related services, [escalating its ongoing clampdown](#) on bitcoin and other digital coins as it moves to roll out its own virtual currency, the digital yuan, and other countries looking to have banks issue commercial bank CBDC style tokens.

Central Bro Digital Currency? NZ Reserve Bank seeks public opinion on CBDCs

Te Pūtea Matua, the Reserve Bank of New Zealand (**Reserve Bank**) has called for public opinion regarding the issuance of a Central Bank Digital Currency (**CBDC**) in NZ and the stewardship of cash. The call was made via [press release](#) and encourages citizens to submit feedback by December 6 with key components including:

- [The future of money](#) - stewardship: Feedback on how the Reserve Bank should steward money and cash.
- [The future of money](#) - central bank digital currency: Feedback on how the Reserve Bank should propose a CBDC and whether it is the right move for the country.
- [The future of money](#) - cash system: Feedback on the [report](#) set to be released in November regarding issues facing

the current cash system in New Zealand.

The announcement comes soon after the passing of the *Reserve Bank of New Zealand Act 2021* (**the Act**) which recognises the Reserve Bank's role as overseeing the functioning of the cash system, ensuring that cash in New Zealand is fit for the public, and monitoring and assessing the impacts of innovation in money and payments on the public's need for cash.

The papers issued by the Reserve Bank show a significant intention to consider digital currency in light of the potential benefits it may provide to the country's declining use of cash. Following the release of the papers, Assistant Governor Christian Hawkesby said:

Commercial banks, the wider cash industry and Te Pūtea Matua (the Reserve Bank) need to seize opportunities and innovate to ensure that the cash, money and ways to pay continue to serve New Zealanders' needs.

The Reserve Bank seems to be taking a measured approach to the implementation of digital currency, deciding to consider its potential while also focusing on the future of fiat currencies. In the press release Hawkesby noted the importance traditional cash still has:

Today we are broadening our consideration to the Future of Money. We still have work to do to preserve cash and the cash system for those that need it. At the same time, trends in cash use and availability along with digital innovation create opportunities to innovate as well as challenges.

The Reserve Bank is encouraging all interested businesses, experts, advisors and individuals to submit feedback to help decide the best approach to the new technologies.

The news has come after a momentous month for CBDC regulation with the [US Federal Reserve also recently hinting](#) at their own CBDC.