Article Information

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Blockchain Bites: SWIFT to test-run cross-chain settlement, Wall St giants lay crypto bets, Fake crypto sites using fake regulator logos, RBA report reveals reducing cash use in Australia, France tackling scams at the on-ramp with new influencer laws

Michael Bacina, Steven Pettigrove, Jake Huang, Luke Misthos, Luke Higgins and Kelly Kim of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

SWIFT to test-run cross-chain settlement

SWIFT, the global interbank communication network, and Chainlink, a leading provider of real-world data to blockchain networks, have announced a collaborative effort to explore the integration of blockchain technology with traditional financial markets. This initiative aims to leverage SWIFT's infrastructure to facilitate the transfer of tokenized assets across various blockchain networks and comes eight months after SWIFT announced that it was exploring the use of blockchain technology to automate its eponymous inter-bank messaging service.

The tokenisation imitative will involve a series of experimental tests with several prominent financial institutions, including the Depository Trust and Clearing Corporation (DTCC), Australia and New Zealand Banking Group Limited (ANZ), BNP Paribas, BNY Mellon, Citi, Clearstream, Euroclear, and Lloyds Banking Group. The objective is to examine the potential for these institutions to utilize SWIFT's infrastructure for instructing the transfer of tokenised assets across different blockchain networks.

Chainlink's role in this venture is to ensure connectivity across both public and private blockchains. The partnership between SWIFT and Chainlink was initially announced at Chainlink's annual conference, SmartCon, last year.

The integration of blockchain technology into capital markets is considered a potential game-changer by some commentators. In SWIFT's press release, it stated:

> *In capital markets, there's a growing view that blockchain technology has the potential to generate efficiencies, reduce costs and open up opportunities for some parts of the industry. For example, private markets have historically been dependent on legacy systems and processes, which add costs and deter investment. By rationalising operations and settlement processes, blockchain could attract more investors into the private markets and ultimately increase liquidity.*

The initiative is a significant step for traditional financial institutions in exploring asset tokenisation, but also offers promise for the cryptocurrency industry. Chainlink's co-founder, Sergey Nazarov, noted that banks hold the majority of global capital. If the blockchain industry is to grow beyond its current market capitalization of $1.08 trillion, banks and their clients will play a pivotal role in driving this growth.

The collaboration between SWIFT and Chainlink, therefore, represents a significant stride towards the integration of traditional finance and blockchain technology, potentially paving the way for the future of the financial industry.

Wall St giants lay crypto bets

Despite crypto winter, institutional interest in digital assets has remained strong with several big names in traditional finance (**TradFi**) announcing digital assets projects in the last few weeks.

BlackRock, the world's largest asset manager, filed paperwork with the U.S. Securities and Exchange Commission (**SEC**) last week to register a spot Bitcoin ETF. Called iShares Bitcoin Trust, the ETF aims to be the first ETF with the cryptocurrency itself as the underlying asset, rather than futures contracts.

The ETF filing marks the latest foray by BlackRock into crypto after launching a spot Bitcoin private trust for institutional clients in the U.S. last year and striking a partnership with Coinbase to allow institutional access to crypto trading. The firm's CEO, Larry Fink, has also strongly advocated the benefits of asset tokenisation as the future of financial markets.

The latest announcement sent the Bitcoin price to a six-week high. Blackrock's filing was quickly followed by WisdomTree, Valkyrie, Bitwise and Invesco filing or, in some cases re-filing, to launch their own spot Bitcoin ETFs.

Todd Rosenbluth, head of research at VettaFi, was quoted by the Wall Street Journal:

> *As the overall ETF industry leader, a BlackRock spot bitcoin ETF could gather significant assets quickly, even if just a small percentage of cryptocurrency assets went into it*

The timing of BlackRock's filing may be strategic with Grayscale Bitcoin Trust, the crypto asset manager which operates the largest bitcoin private trust, currently suing the SEC, arguing that it should be able to convert its trust into a spot bitcoin ETF. Grayscale has said it expects a verdict in autumn, though a ruling could come sooner. If Grayscale wins, BlackRock's filing could facilitate a fast launch of its ETF. BlackRock has nevertheless included additional market surveillance measures in its filing which are intended to address the SEC's concerns regarding price manipulation in spot Bitcoin markets.

Other prominent names in TradFi such as Standard Chartered, Nomura and Charles Schwab are either creating or backing new crypto companies, including exchanges and custody groups that can handle cryptocurrencies such as Bitcoin and Ether. On 20 June, EDX Markets, a cryptocurrency exchange backed by Citadel Securities, Fidelity Investments and Charles Schwab officially launched its platform.

Meanwhile, BNY Mellon and Fidelity are launching crypto custody arms. And just this week, Deutsche Bank announced that it had filed with Bafin in Germany to become a crypto custodian.

In launching their own crypto asset trading platforms and apps, these TradFi institutions hope that institutional investors will prefer their familiar brands to native cryptocurrency exchanges.

In a post-FTX crypto industry, it is interesting to see the biggest names in TradFi and Wall Street doubling down on crypto and digital assets. The latest moves also come at a time when crypto natives such as Coinbase and Binance are fighting regulatory actions by the SEC which has been pursuing a broad policy of regulation by enforcement against the crypto industry.

Fake crypto sites using fake regulator logos

The Canadian Securities Administrators, which represents all the provincial Canadian Securities regulators, has released a warning concerning scam digital currency exchanges which are now including fake certification logos of fictitious regulatory agencies and blockchain industry bodies in an attempt to fool victims.

The scam websites are linking to a number of fake regulator websites and associations including:

- Financial Standard Commission (FSC Canada)
- Financial Commission/Finacom PLC Ltd.
- Blockchain Association (U.K. and Hong Kong – https://blockchainassociation.io/) Not to be confused with the actual Blockchain Association operating from the US.
- European Financial Services and Exchange Commission
- Crypto Conduct Authority/Crypto Frugal Ltd. (Ireland)
- Crypto Conduct Authority/Crypto Frugal Ltd. (U.K.)
- International Regulatory & Brokerage E-markets
- British Investment Commission/BIC PLC Ltd.
- International Financial Market Supervisory Authority
- Crypto Commission Authority/Crypto Commission Ltd.

CoinTelegraph dug into the "Blockchain Association" and reported that the Blockchain Association claimed to be legitimate but "dormant", and doesn't seem to have many active legitimate businesses.

Thankfully, the CSA notes that scam websites continue to have basic grammar and spelling errors which stand out and give a chance for users to self-identify that they are dealing with a suspicious organisation, as well as the CSA calling them out in ways like this.

The best place to stop scams is of course before they happen, and efforts by regulators to warn and educate, and consider dis-incentivising the ways that scams spread by influencers and on social media will be watched closely.

RBA report reveals reducing cash use in Australia

The Reserve Bank of Australia's (**RBA**) Bulletin for June 2023 indicates the changing payment methods in Australia, with a particular focus on the declining use of cash payments by consumers.

The Reserve Bank's 2022 Consumer Payments Survey provides insights into the spending habits of Australians. Cash's share of in person payments in Australia has more than halved from 27% in 2019 to 13% in 2022, cash's lowest ever usage rate. Card payments, specifically debit cards, have continued to soar, becoming the dominant form of payment.

In 2022, card payments accounted for 76% of all payments in Australia. Debit cards account for half of all payments, with credit cards making up the rest. Recently embattled 'buy now pay later' services make up only a small share of consumer payments while cheque usage has further declined, with news breaking that cheques will be completely phased out by 2030.

Since the RBA survey was first commenced in 2007, the use of cash in the Australian economy has continually dropped, even for low value purchases. In 2007, cash still accounted for 69% of all transactions while cards sat at a relatively small 26%.

The report comes at a transformative time for Australia's payment landscape, with Treasury revealing a strategic plan to update Australia's payments system. Although Treasury considers fiat currency will always be relevant, the strategic plan notes the potentially transformative role of digital currencies, such as Central Bank Digital Currencies (**CBDCs**) which are the subject of pilots around the world.

The dramatic shift from a once cash-based society indicates a growing reliance on new technologies to facilitate ease of payments and shows how powerful payment providers and banks have become as essential utilities within the economy. The report also underscores the rapid digitization of the Australian economy and the changing attitudes towards cash and electronic payments among Australian consumers following the RBA's continued progress on its pilot project for an Australian CBDC, which could work to further reduce Australian's use of physical cash.

France tackling scams at the on-ramp with new influencer laws

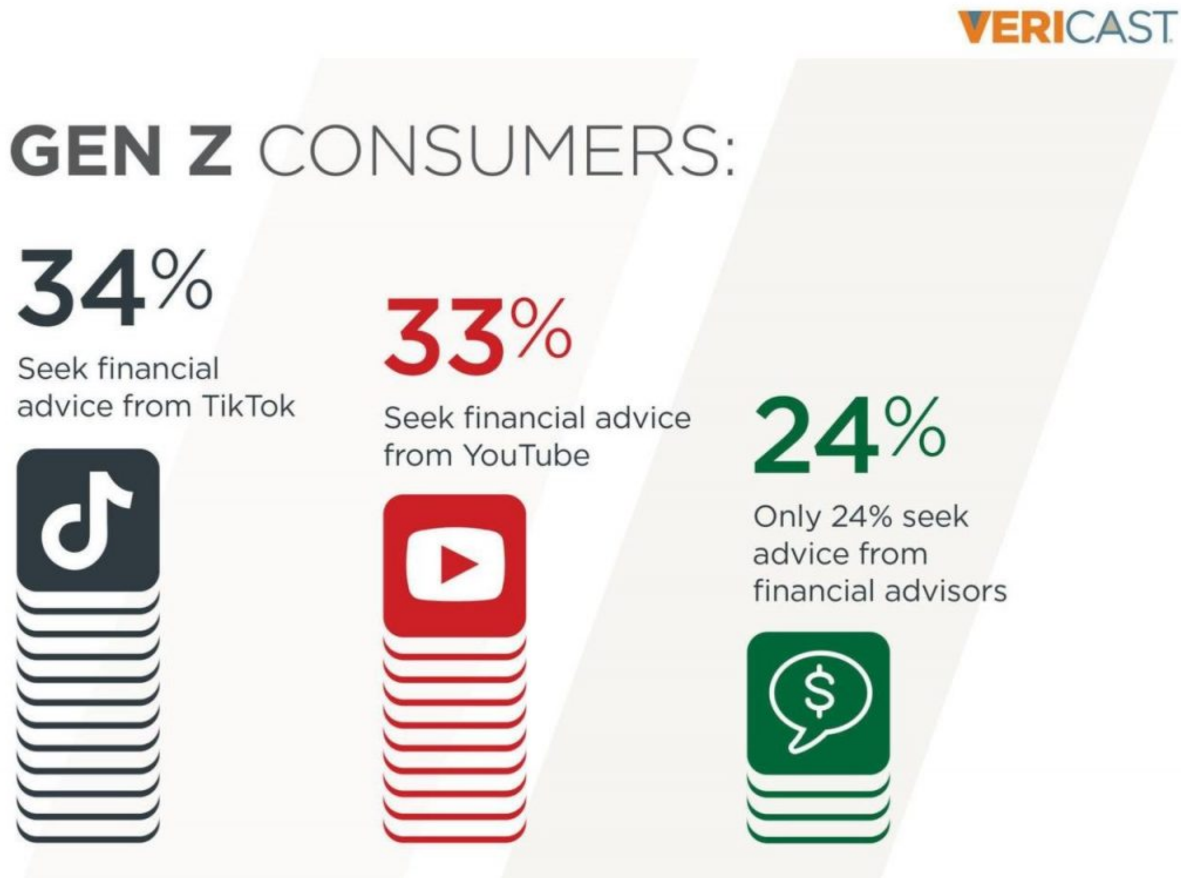
Influencers who promote scams, including those which use crypto-assets as payment rails or which involve crypto-asset investments, will face increased scrutiny and possible penalties in the wake of a number of high-profile cases in France, as the country seeks to tackle losses.

France has seen a number of scams emerge in recent which have been promoted heavily by influencers including:

- "Crypto Gouv" who scammed nearly 300 people and took more than 4M euro;
- Fake employment courses being advertised to job seekers;
- The Animoon NFT sale which was called a $6.3M "rug" and is now the subject of a class action lawsuit"
- An influencer who was posting "copy trading" suggestions online which are alleged to have traversed into the giving of financial advice; and
- Influencers advertising products which are never delivered or which don't meet French standards (including a shampoo that makes users hair fall out!).

It will now be a crime in France to promote scams, with influencers facing up to two years in jail and steep fines. Last year in Australia, ASIC called in a number of "finfluencers" to read them the riot act over online posts which ASIC believed may have involved the giving of financial advice, and released guidelines to influence finfluencers towards a safer path. Australia already has some of the strongest consumer protection laws in the world with the Australian Consumer Law prohibiting misleading and deceptive conduct and the ASIC Act prohibits the same in relation to financial product and services.

Data showing that an increasing number of people are turning to social media for financial advice:



Chainalysis has reported that illicit crypto usage reached all time highs in 2022 in dollar terms, but continues to be extremely small (0.22% of volume, that's right: 1/5th of one percent), which is to be expected as a system like crypto-assets grow. Despite these facts, the narrative of crypto-scams has historically focused on the 'crypto' rather than how victims were lured into scams in the first place.

A targeting of the "on-ramp" and the advertising of scams by influencers, as well as social media and online search advertising, may well prove to be an effective prevention of scams starting, and coupled with the high standards many crypto-exchanges are deploying to help block known scam wallet addresses, should help increase consumer protection while not introducing unnecessary friction over how the general public spend their own money.