

Article Information

Authors: Steven Pettigrove, Jake Huang, Kelly Kim, Luke Misthos, Michael Bacina

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Blockchain Bites: “Eye-catching” WorldCoin scrutinized, CANSEE bill targets AML compliance by DeFi platforms, Digital Assets Conference convenes in Sydney

Michael Bacina, Steven Pettigrove, Jake Huang, 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.

“Eye-catching” WorldCoin scrutinized

Worldcoin, a foundation backed by Sam Altman, CEO and co-founder of [OpenAI](#) (the developer of [ChatGPT](#)), rolled out its ground-breaking and controversial Worldcoin crypto token internationally on Monday.

The Worldcoin (**WLD**) token is part of an identity verification project which the Worldcoin Foundation says is necessary for the future to distinguish humans from robots online, thanks to the increasing challenges brought by artificial intelligence (**AI**) technologies including ChatGPT.

Like other crypto tokens, the Worldcoin token is a cryptocurrency that is transferred using blockchain technology. What is unique about Worldcoin is that it requires users to first prove their identity (and that they are real humans) using an eye-scanning device called the “Orb”. The Foundation [believes](#) that being able to verify a person in that way will be key to a new digital economy in an era when AI is integrated into society.

According to the Foundation’s [website](#):

- A user must download the World App, the first protocol-compatible wallet, to reserve Worldcoin tokens.
- After visiting an Orb, a biometric verification device, users receive a World ID.
- This lets users prove they are a real and unique person online while remaining completely private according to the Foundation.

Eager users can find the closest Orb and book a time to be verified with World App and at [worldcoin.org](#). There are Orbs in 18 countries and regions across the Americas, Europe, Asia and Africa, and the foundation says it is ramping up global distribution of Orbs. It is [reported](#) that people in Tokyo are queuing up to get their eye-balls scanned, before they receive 25 Worldcoin tokens as rewards.

The Worldcoin token climbed as high as US\$3.58 on crypto exchanges yesterday before slumping to US\$1.92 overnight before rebounding, [CoinMarketCap data shows](#). It is trading at US\$2.1 at the time of writing this article.

The Worldcoin project has been widely criticized. Ethereum co-founder Vitalik Buterin expressed his concerns about possible abuses of the system in [a blog post](#), including issues around privacy, centralization and security. Worldcoin has also come [under fire](#) for heavily promoting itself in the developing world: about 30% of its Orb-verified users are in each of Asia and Africa, raising concerns about data exploitation. A [story published in April 2022 by the MIT Technology Review](#) alleged that the foundation deployed:

deceptive marketing practices, collected more personal data than it acknowledged, and failed to obtain meaningful informed consent.

It also claimed that Worldcoin may violate privacy laws such as Europe's stringent General Data Protection Regulation (GDPR).

Regulators are similarly queueing up to scrutinize Worldcoin. The UK's data watchdog, the Information Commission Office, has [launched an inquiry into the project](#), hinting that the Foundation's personal data collection process, which heavily relies on users' consent, may be questionable.

The Foundation responded by saying that they adhere

to the strictest privacy guidelines and requirements in the markets where Worldcoin is available.

It also claimed to be fully compliant with laws governing biometric data collection and transfer, including the GDPR.

The [Worldcoin Foundation has lofty ambitions](#) for the project beyond AI detection and which extend to promoting democracy and universal basic income (UBI):

We believe Worldcoin could drastically increase economic opportunity, scale a reliable solution for distinguishing humans from AI online while preserving privacy, enable global democratic processes, and eventually show a potential path to AI-funded UBI.

Despite the controversy and its antithetical nature to the pseudonymous features of most crypto tokens, Worldcoin presents itself as an innovative and ground-breaking solution to tackle some of the problems caused by the rapid development of AI. With its much publicized roll out this week, this "eye-catching" technology is likely to receive continued scrutiny from regulators and media around the world in the coming weeks.

CANSEE bill targets AML compliance by DeFi platforms

Last week, a bipartisan group of four U.S. Senators introduced the [Crypto-Asset National Security Enhancement and Enforcement Act of 2023](#), dubbed the "CANSEE Act", in response to concerns over the use of decentralised software platforms to facilitate illicit finance.

The bill's lead sponsor, [Senator Jack Reed](#), noted that the proliferation of cryptocurrencies has provided new avenues for financial transactions and in his opinion necessitates an expansion of regulatory power to curb illicit financial activities effectively. The bill aims to crack down on nefarious actors, such as drug cartels and sex traffickers, exploiting DeFi platforms to facilitate illegal financial transactions and would equip the US Treasury Department with enhanced tools to safeguard national and economic security.

Key provisions of the CANSEE Act require individuals who make available or control DeFi protocols or offer user-friendly applications for them to implement AML/CTF and sanctions compliance measures akin to those required of traditional banks. This includes the collection of customer information, reporting suspicious activities, and blocking transactions involving sanctioned individuals.

In cases where no centralised control exists, the bill would require any entity investing more than \$25 million in developing the DeFi project to assume responsibility for these compliance obligations. This would make large investors and venture capitalists responsible for AML/CTF and sanctions compliance by decentralised protocols and websites which facilitate access to those platforms.

[Critics of the bill have raised concerns about the potential impact on innovation within the crypto industry](#). Some argue that overly stringent regulations might stifle the development of DeFi protocols and limit the freedom of developers to develop decentralised software applications.

Jerry Brito, Executive Director of Coin Center, raised his concerns regarding the bill in a [tweet](#).

[The CANSEE Act] would extend sanctions penalties and AML obligations to developers of decentralized protocols. It's unconstitutional and ill-considered.

In an article published by Coin Centre, Brito described the bill as tantamount to a ban on:

[Coin Centre also criticized](#) the potential infringement on first amendment rights to the extent the bill imposes legal liability on software developers and the broad discretion given to Treasury under the bill to define the concept of a controller of a platform.

Striking the right balance between bolstering national security and fostering innovation remains a significant challenge for lawmakers across the globe. While there is broad agreement on the CANSEE bill's goal of safeguarding national security and preventing financial crime, Coin Centre called for lawmakers to engage in constructive dialogue with industry stakeholders to address potential unintended consequences which may cause headaches for legitimate business and otherwise stifle innovation.

Digital Assets Conference convenes in Sydney

The first [Digital Assets Conference was convened by Blockchain APAC](#) in Sydney this week with a series of round tables and a one day conference bringing together TradFi veterans and Web3 natives for conversations on some of the key topics confronting the growth and adoption of blockchain and digital assets.

The conference kicked off with a range of roundtables on topics like institutional adoption, global regulatory trends, blockchain and AI, and digital custody.

Day 2 saw conference participants engage in a series of panel and interactive discussions on a wide range of topics. The first panel discussed the role of digital assets and scams which has been a burning topic in Australia in recent months. CyberCX reported data indicating that total cyber crime is equivalent to the world's third largest economy after the US and China. Further, Australians lost nearly \$3.1 billion to scams last year, although it is believed that only about 13% of scams are reported. It is believed around 40% of scams touch cryptocurrency in some way. Representatives from blockchain analytics firms, TRM Labs and Chainalysis, noted that other countries are seeing similar trends in relation to scams, although these trends have not dominated the discourse in relation to cryptocurrency in the same way as Australia at present. Panelists cited the need for increased information sharing as important in order to combat scams. Attendees also debated the merits of introducing additional customer friction in order prevent scams.

A panel on Australia's role in the region and regulatory trends saw attendees debate the pace and shape of regulatory developments in Australian and internationally, and whether Australia should do more to attract Web3 talent.

John Ho of Standard Chartered Bank updated the conference on recent international policy efforts in relation to digital assets, noting that we have seen a shift among global regulators from scepticism to being more progressive on innovation. Panelists also discussed the increasing recognition by policy makers of convergence between digital identity, digital currency and digital assets in the next wave of technology innovation.

Amanda Wick, the Founder and CEO of the Association for Women in Crypto reiterated the need for industry to provide positive proposals to Government and not sit back and criticize how regulators are not doing it right.

The afternoon sessions saw panels discuss real world use cases and institutional adoption. A number of institutional players commented on the need to build trust in Web3 and the power of established brands. Mastercard's Ashok Venkateswaran highlighted the firm's ambition to [build products that enable customers to "Trust MasterCard as they do today in this new space"](#). The potential benefits of cryptocurrency for global treasury management and cross-border settlement were also highlighted.

The conference concluded on Day 3 with a Gala dinner and the naming a Digital Assets Impact List recognizing those having the greatest impact on the Australian digital assets industry. In a sign of the times, the current ASIC Chair, Joe Longo was named No. 1. The Assistant Treasurer and Treasurer respectively, Stephen Jones and Jim Chalmers, followed at No. 2 and 3 reflecting the important role of government in shaping a [reform agenda for the blockchain industry and wider financial sector](#).