

Article Information

Authors: Michael Bacina, Steven Pettigrove, Jake Huang, Luke Higgins, Luke Misthos

Service: Blockchain, FinTech

Sector: Financial Services, IT & Telecommunications

Blockchain Bites: Celsius files over 2,000 clawback actions, Can blockchain revolutionise public goods funding? SEAL team deploys to thwart DeFi domain exploit, MetaMask's new Web3 Toolkit

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

Burn note: Celsius files over 2,000 clawback actions

In the latest twist in the Celsius bankruptcy saga, the Litigation Administrator of the defunct crypto exchange [has filed over 2,000 originating complaints in the US Bankruptcy Court seeking to recover money withdrawn by customers of the exchange in the 90 days prior to bankruptcy](#). Prior to its fall in 2022, Celsius held approximately USD \$25 billion in assets for over 1.5 million users, making it one of the largest crypto-asset custodians in the world.

Celsius, which filed for bankruptcy on 13 July 2022, is relying on broad preference provisions under the US Bankruptcy Code to seek to avoid and recover from customers who made net withdrawals exceeding USD\$100,000 in the 90 days prior to bankruptcy. It is also seeking to recover a number of allegedly fraudulent transfers.

A number of customers who did not accept [settlement offers made by the Litigation Administrator earlier this year](#) may now be facing clawback actions and other claims. It is likely that Celsius will seek to recover for the value of the cryptocurrency withdrawn by customers at today's prices plus interest and costs. The filings coincide with the two year anniversary of Celsius's bankruptcy filing and the potential lapse of claims under limitation provisions.

There a number of potential defences to preference claims under the US Bankruptcy Code. Depending on their individual circumstances, some creditors may be able to rely on one of these clawback defences to defeat a preference claim, although this remains a live issue which will likely need to be determined by the US Court. For now, the Litigation Administrator is arguing that no defences will apply.

It is likely that Celsius will begin taking steps to serve the 2,000 proceedings on customers in the coming weeks. A number of Australian customers of Celsius have been named in the complaints. Customers affected by the preference actions will need to act swiftly to understand their legal options, including potential defences and settlement strategies.

Piper Alderman is liaising with experienced US counsel on developments in the Celsius bankruptcy and offering assistance to Australian-based customers who may be affected by the recent developments.

Written by Luke Higgins and Steven Pettigrove

Can Blockchain Revolutionise Public Goods Funding?

While blockchain offers transformative potential in revolutionising digital ownership, money and governance, public goods funding is another area where the technology can drive positive changes and solve pain points. During [Consensus 2024](#) - one of the world's largest gatherings of the blockchain and Web3 community - Sophie Dew gave a speech on how blockchains offer new ways of allocating capital for public goods.

[According to the Giveth](#), a crypto fundraising platform, public goods are

commodities or services that benefit all members of a community, often offered free of charge. The cost is typically covered by government entities, meaning that public goods are often financed via taxes. Some examples are public education, roads, street lighting, parks, law enforcement and military.

In Dew's speech and [an article she wrote for CoinDesk](#), Dew presented her arguments on the premise that the power of money can incentivise and drive world-changing innovations. Drawing analogy to how government funding for research since the 1950s has led to breakthroughs in science, and how the growth of venture capital has led to the acceleration of startups and innovations, Dew argued that crypto can similarly power a bottoms-up scalable way of distributing funding into public good areas that need it most.

Dew raised [the example of GainForest](#), which aims to:

tackle deforestation through a transparent and automated system that distributes funding directly to locals who show proof of conservation efforts.

She also mentioned [VoiceDeck](#), which enables

journalists to receive retroactive funding through community-driven decision making.

Dew argued that these projects show what blockchain could do for the world, though she conceded that this is so far just a tiny corner of the industry's focus.

In Dew's case, she has lead the technical development and adoption of [Public Goods Network](#), a Layer 2 blockchain aimed at creating sustainable and durable funding for public goods through sequencer fees. Dew said some of the programs under the network were effective, such as [Optimism's RetroPGF](#), a mechanism that retroactively funds the most impactful projects based on the collective wisdom and decision making of the community.

Blockchain projects [like Gitcoin have pioneered new ways of distributing public goods funding through mechanisms like quadratic funding](#), which aims to democratise the allocation of matching funds to public goods projects in the blockchain ecosystem.

According to Dew, RetroPGF as a funding mechanism is now powering a coordinated, transparent, and tamper-proof way of distributing funding into areas that need it most. She went on to stress the experimental nature of this mechanism,

this was a crazy-successful experiment. Each round was run like a scientific experiment, with hypotheses and control variables, so that they get better and better at accurately assessing and rewarding impact every time.

In addition to being a social good initiative, Dew said public goods funding mechanisms can be a competitive advantage for blockchain ecosystems to scale and capture market share.

Dew pointed out that, unlike how past funding mechanisms were designed top-down, blockchain enables bottoms-up global networks to design systems that align with their values:

Onchain ecosystems are made up of thousands of people from all around the world who are designing novel forms of economic and governance structures around their shared goals.

Dew argues blockchain has the potential to completely revolutionize how capital flows through society and how power and money is concentrated. The combination of global permissionless networks, and smart contract based governance systems, enables new ways to democratise and allocate funding for shared public goods within the Web3 ecosystem and beyond.

Written by Jake Huang and Steven Pettigrove

SEAL team deploys to thwart DeFi domain exploit

Last week, [an unknown threat actor exploited an alleged vulnerability in Squarespace to take over accounts which controlled domains](#) that had been recently migrated as part of the Squarespace acquisition of Google Domains. The exploit affected a number of DeFi protocols, including [Compound.Finance](#) a leading decentralised money market and lending protocol on Ethereum.

The forced migration of Google Domains appears to have allowed the threat actor to gain access to Squarespace accounts of [over a hundred front-end web domains for crypto protocols](#). The [threat actor was able to redirect users](#) to phishing sites, intercept emails, and hijack control of Google Workspace (formerly GSuite) tenants to read email and add devices. The phishing sites are designed to steal visitors' cryptocurrency (known as drainers).

[SEAL 911 first responders](#) and [SEAL \(Security Alliance\) security researchers](#) worked alongside affected companies to coordinate the incident response, assist in recovering access to affected domains, and [advise the broader cryptocurrency ecosystem on how to protect themselves](#). According to [Coininfomania, no loss of funds has been reported](#) to date.

The [Security Alliance](#) is the [coalition behind several other Web3 security initiatives, including the Whitehat Safe Harbor, SEAL Wargames, which allows developer teams to simulate security incident scenarios](#), and the SEAL 911 Emergency Hotline, which enables users, developers and security researchers who need access to urgent security advice, help with disclosing a critical vulnerability, or to connect with a team of carefully vetted expert volunteers. SEAL 911 has helped disrupt, intercept, and remediate several hacks, recovering over USD 50 million in crypto-assets. SEAL has also built [the world's first crypto ISAC](#) or information sharing and analysis centre to enhance real time sharing of threat intelligence, and combat cyber hacks and financial crime in Web3.

Piper Alderman is an [advisor to the Security Alliance and was pleased to collaborate with SEAL on the Whitehat Safe Harbor Agreement](#) alongside leading blockchain and cyber security lawyers including Gabriel Shapiro, the Lexpunk coalition, Debevoise & Plimpton LLP, and the policy teams at Paradigm and A16Z Crypto, among many others.

Written by Michael Bacina and Steven Pettigrove

MetaMask's new Web3 Toolkit

Consensys recently unveiled its new MetaMask Delegation Toolkit at EthCC. This development marks an important moment for developers looking to create accessible decentralised applications (**DApps**) and protocols that offer new user experiences. MetaMask is one of the most popular Web3 non-custodial wallets (meaning that MetaMask software never has access to user's private keys or passwords) claiming millions of active monthly users.

The MetaMask Delegation Toolkit is designed to function across any Ethereum Virtual Machine (**EVM**) chain supported by a user operation bundler, including popular networks like Arbitrum, Avalanche, Base, Linea, Optimism, and Polygon.

A Consensys study involving 15,000 participants aged 18 to 65 revealed that only 8% consider themselves very familiar with Web3 concepts, underscoring a significant gap between public perception and Web3's potential.

The toolkit aims to bridge this gap by streamlining user interactions, minimising repetitive actions, and reducing the need for direct engagement with Web3 infrastructure, claiming an up to 95% reduction in smart contract code for developers using pre-written components (long touted as a key benefit of open source smart contract code).

One of the key features of the Toolkit is its ability to facilitate instant user onboarding without the need for extensions or downloads, seed phrase management which is often a sticking point for users. It also aims to reduce user friction by removing pop-ups and constant confirmations, which should ensure smoother interactions.

Despite recently being [sued by the SEC](#) with allegations made that the MetaMask wallet swap features are an unregistered broker (while it being impossible for MetaMask to register as one), Consensys continues to drive innovation in the Web3 space.

A [waitlist](#) is available for the toolkit.

Written by Steven Pettigrove and Luke Misthos