

Article Information

Authors: Michael Bacina, Petros Xenos, Tom Skevington

Service: Blockchain, FinTech

Sector: Financial Services

Blockchain Bites: Central Bank Digital Currency developments growing around the world, France and Austria combine to fight crypto crime, South Korea proposes crypto tax framework, Bank of Canada considers CBDC

The number of countries exploring CBDCs has grown exponentially, France and Austria have signed an agreement of cooperation, strengthening the tracking of crypto-related crime, tax experts in South Korea have advised the Korean government to apply a low-level trading tax on cryptocurrency profits and the Bank of Canada have begun working on a prototype for a potential CBDC. Michael Bacina, Tom Skevington and Petros Xenos of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

US Commerce Department surveying cross-border digital currency usage

The [U.S. Commerce Department's Bureau of Economic Analysis \(BEA\)](#) has proposed a [rule change](#) to their benchmark survey, requiring all US financial services companies to identify if they have engaged in cross-border services related to digital currencies.

The "[BE-180 Benchmark Survey of Financial Services Transactions between U.S. Financial Services Providers and Foreign Persons](#)" is a mandatory questionnaire issued by the BEA every five years. If implemented, this proposal would give Commerce Department statisticians a more accurate idea of the amount of cross-border digital currency payment activity. While public blockchains permit analysis of raw transactions, without knowing the digital wallet addresses being used by identified businesses, it is much harder for agencies to determine what proportion of transactions are from US businesses.

The survey covers brokerages, private equity funds, custody services, financial advisories and many others, with the BEA estimating that 7,000 respondents will reply. The data gathered will be used to monitor U.S. and international financial services, promote trade and will apparently be put to use for US businesses to identify and evaluate market opportunities.

France, Austria combine forces to combat crypto crime

French blockchain security company [NIGMA Conseil](#), and the [Austrian Institute of Technology \(AIT\)](#), have signed an agreement of cooperation to strengthen their collaboration in tracking crypto crime. The two organizations are working on the [e-NIGMA platform](#), which uses the [AIT GraphSense technology](#).

The possibility to trace and chart blockchain connections and transactions have come about due to stricter KYC rules enshrined in the [AMLD5](#) released in the beginning of 2020. Tracking wallet clusters is essential in discovering darknet usage and funds with questionable origins. The e-Nigma ecosystem will also be able to discover the entities behind crypto wallets, and also track for suspicious transactions. Recently security firm Chainalysis has been instrumental in darkweb arrests involving child abuse material and alleged laundering of drug crime money using cryptocurrencies.

The addition of blockchain security allows the AIT to expand its general portfolio of data and security services, as the organisation already advises on general cybersecurity, systems engineering, camera and video analytics, as well as physical layer security.

South Korea proposes tangible taxation framework for cryptocurrencies

Tax experts in South Korea have [advised](#) the Korean government to apply a low-level trading tax on cryptocurrency profits. This is intended to come into effect before Korean citizens will be subject to a transfer income tax, as expected to be announced in its tax reform plan in late 2020. It is argued by the Members of the Korean Tax Policy Association that the most effective step forward for the South Korean Government is to take a deliberative approach to implementing a cryptocurrency income tax.

The Korea Blockchain Association agreed with the tax experts' proposal, and said, *"related laws are still absent and the taxation infrastructure is still insufficient to cover cryptocurrencies and, as such, some supplements need to be added on the expense calculation side."*

The Association elaborated by stating that before imposing the transfer tax, there should be increased clarity on determining cryptocurrency acquisition costs is necessary. But it's not easy to define these since cryptocurrencies are being traded at multiple rates on a wide variety of exchanges in Korea.

FinCEN rehires Chainalysis executive to confront cyber crimes

Chief Technical Counsel of [Chainalysis](#), Michael Mosier, will return to the [Financial Crimes Enforcement Network](#) in a new role as Deputy Director and Digital Innovation Officer. FinCEN Director Kenneth Blanco [says that](#) Mosier is the "right person with the right skills, at exactly the right time."

In an official FinCEN Blanco said, *"[Mosier] brings a range of public and private sector experience that will help FinCEN proactively engage with industry and government partners to confront emerging threats and to capitalize on diverse opportunities in the financial and national security spaces."*

With Mosier's return, FinCEN is preparing for an "array of reforms." If passed, the reforms would apparently strengthen the bureau's position with tougher AML penalties, and may open the door to further modifications in the [AML framework](#). This is a promising example of US regulatory bodies utilising blockchain technology to lead the charge against money laundering and other forms of cybercrime.

Blockchain veteran Caitlin Long announces new crypto-bank Avanti

Blockchain legislative champion and Wall Street veteran Caitlin Long has announced her next venture, the creation of a regulated crypto bank. Named Avanti, the Wyoming based corporation is preparing to apply for a special purpose depository institution (**SPDI**) charter with the Wyoming division of banking.

Avanti will partner with bitcoin and blockchain technology startup [Blockstream](#), which is slated to build adjacent blockchain application programming interfaces (APIs) and conventional banking APIs to support Avanti's product offering. Avanti's website suggests that the bank will offer payment, custody, securities and commodities services for institutional customers using digital assets.

An announcement on the Avanti [website](#) says, *"Avanti plans to serve as a compliant bridge to the US dollar payments system and a custodian of digital assets that can meet the strictest level of institutional custody standards."*

Central Bank Digital Currencies around the world

Across the globe, central banks have been researching, experimenting with, and implementing central bank digital currencies (**CBDCs**). Recently, the number of countries exploring CBDCs has grown, with some countries in particular taking significant strides towards developing a regulatory framework where a CBDC could be viable, considering the technical limitations and requirements of a CBDC, or by simply announcing that a CBDC would form part of its government's policy framework.

See [here](#) our summary of notable CBDC projects currently on foot.

Bank of Canada: we will lay low unless Libra leaps

Deputy Governor of the Bank of Canada (BOC), Tim Lane, has [declared](#) that although there is "not a compelling case" for a CBDC, the Bank of Canada is working on a prototype.

The BOC has set out a plan to consult with a number of stakeholders, saying, *"the Bank of Canada would design it to provide the benefits of cash—safe, easy to access, private and a good store of value—but in a digital version that consumers could use to buy things electronically online or in person at a shop."*

On cryptocurrencies in general, Mr Lane said, *"if one or more alternative digital currencies threatened to become used widely as an alternative to the Canadian dollar, then a central bank issued digital currency could be used to defend monetary sovereignty."*

Canada joins a growing number of central banks considering whether to issue their own digital currency within the next few years.

US taxpayers burdened with mind-bending crypto tax laws

With the introduction of cryptocurrencies as an asset class within the United States, taxation regulations are increasingly being criticised for being overly burdensome and complex for most American taxpayers.

The new Schedule 1 to the IRS' [Form 1040](#) currently asks whether *"you receive, sell, send, exchange or otherwise acquire any financial interest in any virtual currency?"*. This wording has been heavily criticised for its ambiguity, specifically the lack of guidance as to exactly what this means for taxpayers who have transacted with a "virtual currency" in a novel way, like through atomic swap protocols, airdrops, or on DeFi lending platforms.

A Bitwise [survey](#) suggests that around 45% of financial advisers are open to advising clients to invest in crypto-assets in 2020. Donnelly also noted, *"a good crypto tax return involves not just general tax preparation skill. You have to have an accounting skill to do the reconciliation of all the trades, you also need to have the legal skills because the Anti-money laundering forms are very much law-oriented."*

India's Election Commission considering blockchain system for voting

The [Election Commission of India \(ECI\)](#) is collaborating with the [Indian Institute of Technology](#) to develop a blockchain system allowing Indian citizens to vote in regions outside of their own hometown.

Chief Election Commissioner Sunil Arora [said](#) that about 900 million people were eligible to vote in the 2019 election, however, a third of them did not vote largely due to not being able to get to their polling booth. The commissioner elaborated (emphasis added), *"the EC[I] is working with the Indian Institute of Technology, Chennai, to develop a blockchain system that will allow voters registered in any part of the country to exercise their franchise even after they move cities."*

Voting has been one of the most-explored use cases of blockchain technology in many jurisdictions, and is a great way for the government to dip its collective toes into the blockchain pond. While there has been some progress in Australia on this front (see Horizon State's management of a [fisheries council election](#)), when will we see the next Australian election use blockchain for voting?