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Blockchain Bites: Banks rival for custody of digital asset keys, Saudi and UAE Central banks sandbox Bilateral CBDC, Libra seizes the ‘day’ with rebranding, Beating up Blockchain: new Bill before US Congress

Michael Bacina, Barbara Vrettos, and Jade McGlynn of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

Banks rival for custody of digital asset keys

United Overseas Bank (**UOB**), Singapore’s third largest bank, appears to be making the move into the cryptocurrency space. After advertising for a new role of “VP – custody security administrator” to explore avenues to secure digital assets and prevent assets being lost due to misplaced keys. DBS, (Singapore’s largest bank) recently also announced a ‘DBS Digital Custody’. The solution was designed to support the DBS Digital Exchange as no assets are proposed to be held on the exchange itself. The DBS Digital Exchange is still in the process of gaining regulatory approvals.

Regulators in Singapore are not the only ones grappling with what form digital asset custodians may take. In late October the Wyoming Division of Banking issued a ‘no-action letter’ for wealth management service provider Two Ocean Trust to provide custodial services for both digital and traditional assets under Wyoming law. In quick succession, the SEC issued a public statement which called for consultation on the so-called “Custody Rule” and how it engages in the US with digital assets, potentially hinting that their existing views may alter depending on the submissions.

Saudi and UAE Central banks sandbox Bilateral CBDC

In ambitions to shape the application of distributed ledger technology to prevail over existing pain points in cross-border transfers, the central banks of Saudi Arabia and the United Arab Emirates (UAE) collaborated on a project set to test the viability of a shared digital currency between nations. While the central banks comment that further research is still needed, the Aber pilot reports that it

> *“represents a significant contribution to the body of knowledge in CBDC and DLT technologies and lays the foundation for future work that we plan to explore in the future.”*

The report certainly does build on earlier CBDC experimentation in Canada, Japan and Singapore, which were typically limited to single currency, rather than dual-issued CBDC.

Ways to go or not, this project proposes that Distributed Ledger Technology (DLT) can provide central banks with the ability to reimagine both domestic and cross-border payment systems in new ways – yet another exciting development towards realising the potential of this new technology to transform the financial industry.

Libra seizes the ‘day’ with rebranding

The launch of Libra back in June 2019 drew swathes regulatory (and media) scrutiny before even being able to provide details of the planned digital currency. The main concerns were about privacy, money laundering and infringing the power of central banks with a heaping of "BigTech can't be trusted" thrown in for good measure.

This intense pressure has led to many pivots for Libra (including their Calibra wallet project being rebranded "Novi") and now a further pivot has seen a complete rebrand of the Libra Association which is now the Diem Association.

It remains to be seen how the Diem Dollar will compare with the existing competition of US dollar-based stable coins such as Tether and USDC. As the Diem Association readies itself for the Diem Dollar launch as early as January 2021 it will be interesting to see whether the rebrand will yield more positive regulatory or media treatment.

Beating up Blockchain: new Bill before US Congress

A new bill before the US Congress has ramped up the regulatory assault on blockchain with a group of representatives seeking to limit the creation of stablecoins to, in essence, banks only.

The Stablecoin Tethering and Banking Licence Enforcement Act (the STABLE Act) – you have to hand it to the US, they really do legislative acronyms better than anyone – introduces a legislative definition of a stablecoin as:

> *any cryptocurrency or other privately-issued digital financial instrument that … is … distributed to investors, financial institutions or the general public… and … is denominated in … [a] national or state currency … with the intent of establishing an… expectation… that [it] … will retain a nominal redemption value that is … stable.*

It is with a raised eyebrow we compare the US position, decrying consumer protection around stablecoins, while across the Pacific, the casino Mecca of Macau is seeing a flight of customers, with a pending introduction of a central bank issued stablecoin (with attendant tracking of funds) being cited as a reason for the desertion of business from the casinos.

Australia's approach of regulating activities, not technology, means we are unlikely to see stablecoin specific legislation being introduced down under.