

Article Information

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Blockchain Bites: EU Central Bank demands more controls over stable coins, Looking towards green bitcoin, UK leads the West on certainty for digital assets, VersaBank's commercial digital money released

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.

European Central Bank demands more controls over stable coins in the eurozone

The European Central Bank (the ECB) has recently revealed it holds a strong view that its authority to implement monetary policy, protect the euro and promote the smooth operation of payment systems, should include the right to oversee the launch and operation of stable coins. Alongside assuming *"a greater role in their supervision"*, the ECB has told European lawmakers that it is especially eager to have *"veto power on the launch of stablecoins such as Facebook's Diem in the euro zone."*

The ECB has proclaimed that:

Where an asset-reference arrangement is tantamount to a payment system or scheme, the assessment of the potential threat to the conduct of monetary policy, and to the smooth operation of payment systems, should fall within the exclusive competence of the ECB.

Drawing comparisons between standard payment systems and stable coins, the ECB reportedly believes that:

...issuers of stablecoins should be subject to "rigorous liquidity requirements" similar to those applied to money market funds, including significant cash reserves, to help them withstand large client outflows. Companies selling tokens linked to several currencies "should at a minimum grant end-users a direct claim on the issuer or on the reserve assets and redemption rights".

In a nutshell, the ECB, like many central banks, is fearful of how the rise in digital assets – especially stablecoins which take their value from one or more official currencies, will impact the breadth of their control over the euro.

It seems they figure that if they don't step in and claim their right to regulate and have a say in the development of this new type of money now – they may miss the boat. It would explain why ECB President Christine Lagarde has encouraged the rest of the world to increase its regulation surrounding digital assets. In a Reuters interview last month, she said that *"regulation of crypto assets like bitcoin should be global to close all loopholes"*. No wonder the ECB is busily working on a digital euro that it hopes to launch in the next four or five years.

This movement by the ECB raises the question of where Australia places in this global race for regulation. With the EU continuing to pave the way for the continent to become a global standard-setter in digital assets, will Australian policy and regulation keep up?

Looking towards green bitcoin

After raising \$25 million in its first pre-IPO round last December, Australian start-up [Iris Energy](#), is gearing up for another pre-IPO round before its attempt to go public [before July \(paywall\)](#).

[Recognising that](#) “by 2030, up to 51% of global electricity usage will be dedicated to communication technology”, the energy company is one of the few start-ups that are attempting to use low-cost and sustainable energy to tackle the increasing energy demands of computing technology. For Iris Energy, this has come in the form of “*building a high-performance data center platform [which provides] access to low-cost renewable energy*” (more specifically, hydroelectricity).

The rising demand for energy has long been a recognisable drawback of growing technology, so the platform aims to subsidise the high-energy demands of many high-performance computing applications including artificial intelligence, smart Cities (IoT) and bitcoin mining.

Specifically, bitcoin mining often receives criticism for being power intensive, however, the aims of Iris Energy align well with the reports that [over 70% of miners use a mix of renewable energy](#).

One of Iris Energy’s main focuses over the past two years has been mining Bitcoin in its Canada based data centers. [Reportedly](#), the facility currently uses around nine megawatts of power which it expects to hike up to thirty megawatts by the end of the year. In terms of dollars and cents – meeting this 30MW target would mean Iris will be raking in a “*somewhere around \$75 million dollars in revenue and \$54 EBITDA annually*”.

When its shares are made available to the public [later in the year](#), Iris also expects to raise a minimum of \$50 million which it can use to build out its mining capacity even further. With “*500MW worth of projects across Western Canada, Central USA and the Asia-Pacific*” [already identified by Iris](#), their plans to grow appear to be going full speed ahead.

In order to remain cost efficient, bitcoin miners must consider their options to minimise the costs of their operations. Phillip Sander, Professor of the Frankfurt School Blockchain Center, [stated that](#) “*the architecture of Bitcoin is only beneficial for mining companies that have access to low-cost electricity and efficient mining hardware*”. Therefore, it seems that companies like Iris will be well received by the public and bitcoin community hoping to tackle the energy use problem

The UK leads the West on certainty for digital assets

The UK is unveiling crypto consultations in quick succession. Shortly after the consultation into whether [digital currency promotions](#) fall into the scope of financial services regulation, the HM Treasury announced [another consultation](#) to evaluate the regulatory approach to digital assets and stable coins

This is unsurprising as the Financial Conduct Authority’s consumer research demonstrates that consumers are aware of the risks but continue to purchase digital assets as

47% of UK cryptoasset consumers said they bought cryptocurrencies ‘as a gamble that could make or lose money’ and 89% understood that they are not subject to regulatory protections.

The previous consultation fell under the first measure the HM Treasury announced as part of its [March 2020 budget](#) to address digital assets and the report now falls under the second measure to consult on the broader regulatory approach to digital assets, including the approach to stable coins. The consultation paper sets out the current regulatory landscape, the government’s proposed policy approach and specific proposals for digital currency payments

In collaboration with crypto asset task forces and the HM Treasury three key policy objectives were identified:

1. Protecting financial stability and market integrity;
2. Delivering robust consumer protections; and
3. Promoting competition, innovation and supporting UK competitiveness.

These objectives are to be achieved with the underlying principles that the same risks should yield the same regulatory outcomes and to reflect international discussions with a “future government” approach to financial services and payments regulation.

The regulation proposes a staged approach with its

priority to ensure that tokens which could be reliably used for retail or wholesale transactions are subject to appropriate regulation.

This means that in the first stage stable tokens (including tokens where the value linked to single fiat or other assets e.g gold) will be brought in the scope of the legislative changes but unregulated exchange tokens, unregulated security tokens, and security tokens generally, will fall into second stage or future regulatory considerations.

The consultation is open until 21 March 2021.

The consultation displays UK's lead in classifying and regulating digital assets. The clear demarcation between the features of tokens that bring assets into regulation or push them outside of scope is both useful and necessary for companies developing products in the digital asset space. Currently there is no such regulation in Australia, however, this will be necessary to foster local innovation.

Canada's VersaBank's very innovative commercial digital money released

Not only has Canada listed one of the first [Bitcoin](#) and [Ether](#) exchange traded funds on the Toronto Stock Exchange, Canadian bank [VersaBank has recently announced](#) what they are calling a 'world first', a bank issued stablecoin.

VersaBank has always been friendly towards blockchain and digital currency. Their new 'VCAD' will be represented 1:1 deposits in a North American bank. It is intended that the VCAD will leverage smart contract functionality and be issued to financial intermediaries in exchange for Canadian dollar deposits. VersaBank's partners will then be able to roll out VCAD to individuals and businesses who can use VCAD for general commerce and redeem it for Canadian dollars with the bank.

David Taylor, president of VersaBank [said](#):

VCAD offers consumers and businesses the ability to adopt and leverage the benefits of digital currency and blockchain-based assets without the volatility of traditional currencies, alongside the security of a value-backed asset that the cryptocurrency world has long demanded.

Taylor added that:

VCAD provides consumers with not only the security afforded by an underlying deposit with a Canadian chartered bank but also the comfort of knowing that each VCAD issued or redeemed will always have one-to-one value with the Canadian dollar. With such clear benefits, we are highly confident in the demand for VCAD as digital currencies increasingly become part of mainstream financial transactions.

VersaBank has developed VCAD together with [StableCorp](#), which currently offers a stablecoin called QCAD. Stablecorp is a joint venture of [3iQ](#) (which was involved in the recent Bitcoin EFT on the TSX) and [Mavennet](#) a Canadian blockchain development. How long will it be before an Australian bank (or banks) start issuing their own stablecoins?