Article Information

Author: Michael Bacina
Service: Blockchain, FinTech
Sector: Financial Services, IT & Telecommunications

Blockchain Bites: Apple recruits to explore alternative payments, DCEs call for regulation in the wake of competitors going ghost, Cryptocurrency education still critical

Michael Bacina, Alexa Bowditch, 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.

Apple recruits to explore alternative payments

A recent job post has sparked curiosity over Apple's position in relation to digital currencies. The new role 'Business Development Manager – Alternative Payments' looks beyond the current payments purview offered by Apple and looks to explore "*what is an alternative way of doing this*".

The role will involve leading alternative payment partnerships and specifically calls for:

> 5+ years experience working in or with alternative payment providers, such as digital wallets, BNPL, Fast Payments, cryptocurrency and etc.
>
> Deep knowledge of the alternative payments ecosystem, understanding the complexities of funds flow, roles/responsibilities for settlement, relevant regulations and industry standards and the wide spectrum of FinTech products.

While Apple has not made public statements about the potential expansion into digital currencies, speculation is rife are excited about what this could mean for the industry. Forbes reports that Apple's backing of digital currencies could "*give the market its strongest endorsement yet*".

If Apple does embrace digital currencies, Coindesk suggests that this could expand the scope of payments accepted in Apple's app store which have previously forced "*apps to use Apple's commerce rails and play by Apple's rules.*"

The idea of partnership arrangements to facilitate digital currency payments also suggests that Apple may not be looking to re-invent the wheel and could roll out a solution with existing infrastructure quickly. Hopefully this is the first of many hires by Apple in this space.

DCEs call for regulation in the wake of competitors going ghost

Last month there was intensifying discussions around the social and environmental footprint of digital currencies. But, as the tally for DCE's going ghost-mode gradually increases, this month's hot topic is shaping up to be the under-regulation of DCEs (digital-currency exchanges). As it turns out, the rise in concerns aren't siloed to those watching from the fence lines. "*Insufficient regulation and slow-moving policymakers*" are issues equally troubling to market players within the crypto-space.

The respected Sydney Morning Herald, recently interviewed Partner at Piper Alderman- Michael Bacina, and the chief executive of a leading exchange, Independent Reserve – Adrian Przelozny, on the topic.

Przelozny told reporters about his concerns about the regulatory haphazardness and what that means for companies who, intend to make a legitimate business:

> There are no consistent sets of rules that exchanges need to follow, he says. You're basically relying on people doing the right thing just because they want to do the right thing.

Large exchanges like Independent Reserve, which holds ~$1 billion in assets for over 200,000 customers are doing the right thing. But it goes-without-saying that conscientiousness should not be the only driving force behind fostering industry wide best practices.

The reality is that consumers may have a hard time discerning the difference between those exchanges who are meeting best practices and those who are not. That behaviour besmirches all in the industry, like Independent Reserve, who take utmost care with other people's assets.

One recent example is the ACX, the Australian-based digital currency exchange, who dramatically stopped responding to users' withdrawal requests and ceased updating the price of tokens on their website with around ~AUD$10 million in customer assets still unaccounted for and no action from any regulators towards the company. MyCryptoWallet has faced a similar situation with reports of client funds being blocked from withdrawal after the exchange reporting undefined "issues" that seem to remain unresolved.

Bacina was quoted by the SMH in saying:

> Digital exchanges are rightly concerned about scams and myths that persist around digital currency being used by criminals, he says. There's a real concern that there will be a large hack or significant scam, possibly impacting an exchange which isn't meeting best practices, and knee-jerk regulation could be imposed in response.

As Caitlin Long put it very well in a recent online post, government needs to be careful that regulation is not stifling of innovation.

Blockchain Australia operates a certification process and subscribe to its Code of Conduct. If more members become certified upon the release of version 2.0 of the Code of Conduct, this would go towards uplifting industry standards and best practice. Be that as it may, there's no denying that the development of better overarching standards from regulators could help lift the bar for customer experiences in the digital asset space.

Cryptocurrency education still critical

Despite Bitcoin having been created in 2009, and the recent anniversary of the first retail bitcoin transaction, which occurred on May 22 2010 when Laszlo Hanyecz purchased 2 pizzas for 10,000 BTC, there are continued claims that cryptocurrencies are still only for criminals

In a recent Senate estimates hearing, narrowly focussed questions were asked of Nicole Rose, CEO of AUSTRAC, in relation to the use of DCEs by ransomware groups. Such scrutiny on the use of digital currency exchanges for ransomware, suggests there is still significant education required.

A recent Chainalysis Crypto Crime report noted there are 270 wallet addresses which are connected to 55% of all money laundering.

> Todd Lenfield, Australia Country Manager of Chainanalysis, at a recent event, noted that only 11% of those addresses are associated with Australian digital currency exchanges and 0.34% of digital currency transactions are associated with illicit activities… we have seen a dramatic reduction this year.

Due to the traceability of cryptocurrencies, the use of cryptocurrencies for payment of ransomware is illogical. As the Senator pointed out, there has been "*research showing that just 199 deposit addresses receive 80 per cent of all funds sent by ransomware addresses in 2020.*" We expect that Australian AUSTRAC-registered cryptocurrency exchanges should have processes in place in their transaction monitoring procedure (part of their Anti-Money Laundering and Counter-Terrorism

Financing Program) to monitor transactions against blacklisted wallet addresses (such as those used for ransomware).

Also noted in the Senate estimates committee, it has also recently been announced that AUSTRAC may be audited by the Australian National Audit Office (ANAO), which will assess the effectiveness of AUSTRAC's regulation of DCE providers.

If the audit goes ahead it will examine the way in which AUSTRAC:

- communicates the new registration and reporting requirements to DCE providers;
- administers a Digital Currency Exchange Register;
- assesses and addresses risks to registration and reporting compliance; and
- uses reported information.

The audit will also determine whether AUSTRAC has developed an evaluation framework to assess the effectiveness of the regulatory regime in achieving the policy objective of preventing and detecting crime.

Following such an audit, you may expect the way in which AUSTRAC communicates with the industry may change.