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Blockchain Bites: Australian Govt funded Blockchain Pilots announced, Unnamed employee sprung stealing from liquidated exchange Cryptopia, Sotheby's continues to break records with crypto assets

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.

Australian Govt funded Blockchain Pilots announced

Earlier this year the Australian government announced two grants of up to $3 million for blockchain pilots which could showcase the potential for blockchain to alleviate regulatory compliance burdens for businesses.

These grants were specifically targeted at increasing the efficiency, productivity and competitiveness of Australia's Critical Minerals and Food and Beverages sectors. Last week Hon Christian Porter MP announced the winners collectively receiving over $5.6 million in grant funding.

The winners are:

- Everledger (QLD) who has received $3 million in funding to investigate a robust process to digitally certify minerals throughout the process of extraction and mining. By being able to identify certain minerals the pilot intends to assist companies to discern which compliance obligations apply and also increase demand for Australian Products. Everledger currently provides a similar provenance and verification service for several other areas including apparel, art, batteries, diamonds etc.
- Convergence.tech (VIC) who has received $2.6 million to harness blockchain technology in order to automate administrative processes connected with the current excise system (a commodity based tax) with a specific focus on the Australian Spirits Sector. This endeavour supplements ConvergenceTech's expertise as a consultancy in a range of areas including identity and credentials and traceability in agriculture, the environment and supply chains.

Minister Porter said:

> These two successful projects will also highlight opportunities to improve the technical and regulatory environment for blockchain in Australia, bolster blockchain literacy and support collaboration between Australian governments, the private sector and blockchain companies.

These pilots demonstrate a welcome investment from the government into blockchain based initiatives that are not based in financial services which currently dominate the crypto and Australian landscape and should serve as powerful examples of regulatory automation once completed.

Further regulatory insights gained through the pilot programs should supplement the upcoming Senate Select Committee on Australia as a Technology and Financial Centre report which will focus on enhancing the regulatory framework around digital assets.

Congratulations to the winners! We look forward to seeing what they build.

Unnamed employee sprung stealing from liquidated exchange Cryptopia

An unnamed Christchurch man has recently pleaded guilty to stealing over NZ$250,000 worth of digital currency from digital currency exchange Cryptopia. In its prime, Cryptopia sported over 80 staff, offering its services to over 1.4 million customers globally but following a hack in January 2019 – which saw more than NZ$25 million worth of digital currency stolen, representing roughly 15% of customers holdings – the exchange was placed into liquidation.

Sometime during his employment, the employee made unauthorised copies of several private keys which were linked to Cryptopia wallets. The private keys for wallets are used to sign transactions and, if copied, can be used to transact on those wallets. He later used those copied keys to siphon funds into his own wallet – from his home computer. At the time of the theft, the man stole around NZ$235,000 in bitcoin and NZ$10,000 in other digital currencies.

However, when a customer alerted the liquidator that an accidental deposited of bitcoin had been made into an old Cryptopian wallet, liquidator Grant Thorton started reviewing those old wallets and discovered that 13 bitcoin had been taken. Using the open nature of blockchain tracing, Grant Thornton was able to identify that 2 of the bitcoin had been moved though mixing services, which aim to obscure the source of the funds.

Within a week, the former employee contacted Grant Thorton and confessed to his crimes, confirmed he had returned 7 bitcoin and attempted to broker an agreement to return the remaining 6 bitcoin if he would not be pursued. He then sensibly returned those bitcoin and was prosecuted.

While an unusual crime, this once again shows the power of traceability on the bitcoin network. Funds moving through overseas banks or other payment platforms or even cash would become untraceable but in the blockchain environment the liquidator could easily see there was something suspicious occurring.

This case has some important takeaways:

1. Liquidators need to examine all aspects of digital wallets in businesses they are appointed over;
2. Private keys need to be the subject of special security and;
3. The traceability of bitcoin and public blockchains make it a terrible place to steal or launder funds

Sotheby's continuing to break records with crypto assets

Sotheby's has set another digital asset record in its sale of a pear-shaped D Flawless Diamond, "The Key 10138" which was paid for with crypto currency.

This comes mere months after Sotheby's first accepted digital currency as a form of payment in its first NFT Auction in April.

Subsequently, Sotheby's also hit the headlines selling a Banksy artwork for USD$9.8 million and for auctioning the first NFT that was created.

Sotheby's new record is for the most expensive piece of jewellery ever sold priced in cryptocurrency, for the sale of the 101.38-carat diamond for USD$12.3 million, paid in Bitcoin or Ether.

With El Salvador recently passing legislation to make Bitcoin legal tender and Visa reporting that more than $1 billion was spent on crypto-linked Visa cards in the first half of 2021, payments large and small in cryptocurrencies such as Bitcoin and Ether will continue to become more mainstream.