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Blockchain Bites: Microsoft offers in-browser digital wallet, FDIC forces Signature bank to drop crypto customers, Alleged de-banking of US crypto, US government appeals Voyager sale, Stables and Mastercard launch USDC wallet

Michael Bacina, Steven Pettigrove, Jake Huang, Luke Misthos, Luke Higgins and Kelly Kim of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

Microsoft surfs the Edge of innovation with in-browser digital wallet

Microsoft is testing a non-custodial cryptocurrency wallet within their Edge web browser, which will allow users to make cryptocurrency payments and access DeFi and Web3 applications within the Edge browser. Screenshots shared by software researcher and Twitter user Albacore show the proposed user interface for the software wallet which includes an explorer for dApps, a news feed, and the ability to buy/sell/swap tokens through Coinbase and MoonPay.

The software wallet is embedded in the Microsoft Edge web browser and is non-custodial, meaning the user has complete control of their funds (as opposed to a custodial wallet where a third-party company or service provider controls the private key to your wallet), and reducing the potential regulatory risk to Microsoft if users lose funds. It remains unclear exactly which tokens will be supported, but users will be able to manually add custom tokens as Metamask permits. The screenshots suggest that users will be able to browse and purchase NFTs across major marketplaces (e.g. Opensea) using the wallet.

Microsoft is no stranger to experimenting with crypto, having brought Bitcoin as a currency into Excel in 2021 and collaborating with ConsenSys and EY over Baseline protocol.

Other web browsers, including Opera and Brave, have added built-in crypto wallets as the adoption of blockchain and Web3 continues to grow. The move by Microsoft would represent the first of the major web browsers (i.e. Mozilla, Chrome, and Safari) to incorporate an in-built software wallet into their browser. For the time being, the software wallet remains very much in the testing phase, as Microsoft is yet to officially announce the project, but a better wallet and UX experience for crypto-assets is essential to drive greater adoption in the long term.

FDIC forces Signature bank to sign away crypto customers

Signature Bank, a New York-based full-service commercial bank known for being crypto-friendly, was recently shut down by US regulators. Reports indicated that when the bank was listed for sale, any potential buyer was required to agree to a major caveat – no crypto business.

The closure of Signature Bank came just days after two other major US banks, Silicon Valley Bank and Silvergate Bank, both based in California, were also placed into receivership. While Silvergate was known to be a crypto-friendly bank, Silicon Valley Bank was not known to have a significant crypto business.

According to reports, Signature Bank's closure was officially due to a failure to provide data to regulators, something which has not been cited before as a reason to place an otherwise solvent bank into receivership. The New York Department of Financial Services however has denied that crypto had any role in its decision to close the bank, instead citing a "crisis of confidence" in the bank's leadership.

The bank's crypto clients reportedly accounted for 25% of its deposits, and the institution was reportedly under investigation by the Department of Justice and the Securities and Exchange Commission. In January 2022, the Federal Reserve Board of Governors, Federal Deposit Insurance Corp., and the Office of the Comptroller of the Currency issued a general statement expressing "*significant safety and soundness concerns*" about bank crypto exposure and warning banks about potential liquidity risks from stablecoins, without providing any data indicating that banks had been taking exposure to crypto via their capital.

Some in the blockchain ecosystem have speculated that the closures of the three banks are indicative of a co-ordinated effort by regulators to choke off crypto from the banking system. Former acting Comptroller of the Currency and one-time Binance US CEO Brian Brooks has suggested that the closures are part of an anti-crypto motive. Barney Frank, a Signature Bank board member and former Democratic U.S. congressman who co-authored the Dodd-Frank Act, has also suggested that regulators shut down the bank to send an anti-crypto message.

The closures of these banks also reflect the growing trend of regulatory crackdowns on crypto. As governments around the world grapple with how to regulate blockchain, financial institutions that deal with tokens may face increasing regulatory pressure. The blockchain ecosystem continues to grow and innovate, it is likely there will be more opportunities for financial institutions to serve the particular needs of crypto investors and businesses. Governments will be coming under increasing pressure to make fit for purpose regulation or be accused of supporting 'regulation by enforcement' with all the adverse consequences that entails.

Alleged de-banking of US crypto? FOI requests fly

On March 16, the Blockchain Association (**BA**), the US cryptocurrency advocacy group, lodged a Freedom of Information Act request (**FOIA**) to government agencies including the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency. Since 1967, the FOIA has enabled any member of the public to request formal records from federal agencies that may not be publicly available. In light of the recent collapse of Silicon Valley, Silvergate and Signature banks, BA has exercised this right to investigate the truth behind what appears to be a potential de-banking of lawful crypto firms in the US.

Barney Frank, a former US House of Representatives member, claimed that the FDIC's closure of the crypto-friendly Signature Bank was a 'strong anti-crypto message' from the authorities. This was as both Silvergate and Signature were solvent when federal authorities stepped in. The regulators justified their decision in a joint statement that the bank closure was necessary to:

> *Protect the US economy by strengthening public confidence in our banking system.*

The FDIC has denied the rumour that the agency requires all potential buyers of the collapsed banks to divest crypto activities, making reference to the FDIC chairman Martin Gruenberg's previous statement that FDIC does not prohibit or discourage banks from serving customers of:

> *Any specific class or type, as permitted by law or regulation.*

Nevertheless, there are rising concerns that crypto businesses could be forced to turn to riskier alternatives as a result of the de-banking of crypto firms in the US. BA further noted the troubling allegations made by industry participants including challenges with opening new bank accounts and closure of existing ones. The CEO of BA, Kristin Smith voiced this concern:

> *Businesses need bank accounts to pay employees, vendors and taxes…these are lawful businesses in the United States and should be treated like any other law-abiding business.*

It remains to be seen whether the requested documents and communications from the federal agencies could uncover any truth behind the rumours of an anti-crypto agenda by the US government around the failure of the three banks.

US government appeals Voyager sale

Binance.US's acquisition of certain assets of Voyager Digital Holdings Inc, the bankrupt cryptocurrency brokerage firm, gained approval from Judge Michael Wiles of the U.S. Bankruptcy Court in New York last week.

Under its chapter 11 bankruptcy plan, Voyager was permitted the option of being acquired by Binance.US or liquidating its assets and distributing it to creditors. Binance.US had previously offered to take control of the crypto assets deposited by Voyager's users and make a $20 million cash payment to the bankrupt crypto brokerage.

However, US authorities, principally the SEC, have consistently sought to block the $1 billion acquisition, and have now appealed against Judge Wiles' approval of the deal, with the lawyers for the SEC submitting that Voyager's bankruptcy plan and the acquisition would be contrary to federal securities law.

In February 2023, New York's financial regulator and Attorney General warned against the sale of Voyager, with the New York Department of Financial Services alleging that Voyager had:

> *Illegally operated a virtual currency business within the state without a license.*

Policy considerations, amongst other things, were raised by federal lawyers to argue that Voyager's bankruptcy plan, if approved, could interfere with future policing efforts for the cryptocurrency markets.

Judge Wiles previously reflected his hesitance to block the deal as per the regulators' warnings, commenting that giving the SEC the power to interfere with such sales would:

> *Hang a sword over the head of anyone who's going to do this transaction.*

At a further hearing, and then in a published judgment, Judge Wiles made some blistering comments about the SEC's lawyers submissions concerning the deal, saying:

> *in making its arguments, the Government has not even discussed any of the authorities that I cited, or the actual theory on which I relied…the evidence and argument before me during the confirmation hearing did not suggest there were any illegalities*

Judge Wiles hence overruled the SEC's objections on the basis that their efforts to challenge the legality of the deal in light of federal securities laws were unsupported by evidence. The SEC's failure to give clear regulatory guidance with respect to cryptocurrency was also criticized:

> *If the Government has not already taken regulatory actions with respect to cryptocurrencies, or if it delays in taking any further regulatory actions, those delays will certainly not be attributable in any way to my order.*

The judge finally reiterated his approval of the acquisition and denied the Government's request for a stay pending appeal on the grounds that further delay would be contrary to public interests.

Stables and Mastercard saddle up for USDC point of sale payments

Stables, Australia's home-grown payment provider has entered into a deal to permit users to spend their stablecoins anywhere Mastercard is accepted.

Stables says their stablecoin wallet is the first in APAC to partner with Mastercard. It will enable users to spend USD Coins (**USDC**), which will be converted to fiat currency and settled on Mastercard's network. This wallet will be integrated with a virtual prepaid card, which will be accessible through the Stables digital app. This will enable users to directly spend their stablecoin balance on everyday purchases.

Stables Co-Founder and CEO Erez Rachamim said the introduction of stablecoin payments for everyday purchases marks a significant step in the maturity of cryptocurrency in the Asia-Pacific market:

> *As adoption for digital assets increases across the globe people are requiring simple and accessible means to get utility from their digital assets in the real world…Customers spend as they usually would using*

> *stablecoins, with transactions then settled by Stables' payment gateway enabling real-time transactions using USDC…Conversion and settlement occur behind the scenes, secured with digital asset custody technology provider Fireblocks, thus enabling users to checkout as they normally would with a debit card.*

The Mastercard-enabled wallet integration will become available for users in the second quarter of 2023. The stablecoin digital Mastercard will be initially available for users based in Australia and is then planned to be released in Europe, the United States, the United Kingdom and most of Asia Pacific.

Kallan Hogan, Vice President of Business Development and Head of Fintech, Australasia, Mastercard said

> *Mastercard is committed to powering innovative payment solutions that give cardholders the freedom to spend their assets where, how, and when they want. Stables is building a solution for the Web3 sector Leveraging Mastercard's global network and cyber and intelligence tools, including CipherTrace and Ekata, with trust and security at the core*

While the Stables wallet is the first stablecoin wallet that partners with Mastercard in APAC, Mastercard has previously launched several crypto payment cards as part of its Global Crypto Card Program. It was reported that Visa is also actively looking to catch up in this field.

Interest in adopting stablecoins and blockchain technology in everyday payment continues to rise with two of Australia's major banks, ANZ and NAB, both creating their own stablecoins in the past 12 months.

NAB Executive General Manager Markets Drew Bradford said banks are investing to develop Australia's safest, simplest and most secure digital asset ecosystem:

> *We believe that elements of the future of finance will be blockchain enabled and we're already witnessing rapid change in the tokenisation market,*

Mr Bradford also added:

> *Like Stables, NAB in forming its own stablecoin 'AUDN', partnered with Fireblocks to facilitate minting and burning its stablecoin and managing the direct custody of the digital assets on the blockchain technology.*

After the events of 2022, it's great to see stablecoins emerging increasingly as the good news story of Blockchain for 2023.