

Article Information

Author: Michael Bacina, Steven Pettigrove

Service: Blockchain, FinTech

Sector: Financial Services, IT & Telecommunications

Blockchain Bites: Bulls, Bears & Behind Bars, Beijing publishes Internet 3 whitepaper, Bali blocks visitor crypto contributions to the economy, Circle expands EUROCC to Avalanche Blockchain

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.

Bulls, Bears & Behind Bars

During a [recent webinar](#) hosted by Piper Alderman's Blockchain Group, speakers from [Chainalysis](#) and [Swyftx](#) joined in for a discussion on the latest regulatory and financial crime developments in relation to digital assets.

The digital asset ecosystem is currently at a pivotal point following the bull run of 2020-21 and the collapse of several high profile businesses, including FTX, last year. Markets appear to have stabilized, with new innovation rising in a number of different areas, including BRC-20s, Ordinals and increasing real-world asset tokenization, and a focus on real world use cases.

However, while [jurisdictions such as the EU](#) and Hong Kong are leading the way in introducing and implementing a regulatory framework around digital assets, Australia risks lagging behind, despite ongoing efforts through a Federal Treasury led [Token Mapping consultation](#), an [AML/CTF consultation](#) and a [private members bill](#) proposing licensing for centralised exchanges, custodians and stablecoin issuers.

Investor protection is often delivered through regulation and different approaches taken across jurisdictions were discussed. For example, the requirement to issue stablecoins in Japan, where issuers must be a qualified bank fund transfer service provider or a Trust company, whereas in Singapore, a standalone stablecoin category for digital assets under the existing Payment Services Act has been proposed. Despite the different approaches taken internationally, a common trend is that tokens that resemble securities are increasingly being identified and treated in ways analogous to existing securities laws but with tailoring to meet the unique characteristics of crypto technology.

[Hong Kong authorities are pushing ahead with permitting retail access to digital asset trading](#) subject to certain safeguards and specific limits, with stringent requirements including a suitability due diligence process to ensure clients have a sufficient understanding of risks of crypto-assets and limitations on retail investors' access to only eligible 'large cap virtual assets'. In examining the approach taken by Hong Kong, an important question was raised as to how much friction to retail users will be suitable in the Australian market to deliver user protection without users moving to offshore providers.

Adam Percy, the General Counsel & Company Secretary at Australian cryptocurrency trading platform, Swyftx, said:

Customers are going to trade what they want to trade, whether that's done by an onshore Australian entity or whether they have to...get a VPN to access an offshore facility, that is going to happen.

He further suggested that offering consumer protection in Australia through regulation is recommended so that users financial well-being is not jeopardized by them pursuing alternative trade opportunities offshore. However, striking the

correct balance between regulating for consumer protection and facilitating market demands remains a difficult task.

Chengyi Ong, the Head of Policy APAC at Chainalysis noted that the Chainalysis [Crypto Crime Report](#) showed overall illicit transaction volume still remaining a 'fairly small share of total activity on chain, far less than 1%'.

Chengyi identified the key drivers behind the [2022 USD\\$20.1B illicit transaction volume as sanctions, scams and hacks](#). However, she reflected optimistically on the potential to significantly reduce illicit activity in stating that there are many commonalities behind these seemingly separate crimes. She suggested that networks of perpetrators using the same type of services for money laundering provide a good target for law enforcement to conduct high impact enforcement actions. In doing so, she also highlighted the potential of chain analytics in assisting scam identification and risk management, which was echoed by the other panelists.

On the topic of surveillance, Michael Bacina, Partner and Head of the Blockchain Group at Piper Alderman and Chair of Blockchain Australia observed:

If we want a digital cash for use online, we probably don't want it to be traced for all of our everyday transactions...being able to catch people who are doing the wrong thing without living in a surveillance society...is a very difficult balance to strike.

However, he echoed the panelists' optimistic view on Australia's potential to introduce effective regulations to attract people onshore in stating:

Australia has a really valuable opportunity here because we're viewed favourably for our rule of law and for...quality regulators who are...honest.

While the Australian Government has been continuing its efforts to introduce regulations on digital assets, given that other jurisdictions like the EU and Hong Kong have already surpassed the discussion and consultation phase and are transitioning into the implementation stage, Australia will have to play catch up to prevent further innovation heading offshore and Australian users being protected only by foreign regulatory regimes.

A [recording of the webinar can be accessed here](#).

Beijing publishes Internet 3 whitepaper

This week, the Beijing Municipal government [released](#) an "[Internet 3 Innovation and Development Whitepaper](#)" (**Whitepaper**) which introduces the Chinese capital's innovation efforts and development strategy in the cutting edge areas of Blockchain, Web3, the Metaverse and artificial intelligence.

The Whitepaper coined the term "Internet 3.0", which represents a broad concept covering both the Metaverse and Web3. A core feature of Internet 3.0 is that it enables:

highly immersive sensory experience and economic activities, merging and interconnecting virtual and actual realities

The Whitepaper foresees that Web3 will be one of the foundational building blocks for Beijing's "Internet 3" ambition, and mentions the global popularity of Web3, underpinned by technologies including blockchains, non-fungible token (**NFT**), privacy enhancement technologies, decentralised autonomous organisations, socialised computing networks, on-chain data analysis and content security.

Importantly, the Whitepaper identifies that Web3 lays the groundwork for identity authentication, ownership determination, asset transaction, and monitoring and supervision which are all vital to Internet 3. China seems keen on empowering a new digital economic system and enabling trustless multi-party governance in Internet 3. The Whitepaper cites the [Development Report on Global Web 3 Technology Industry Ecosystem \(2022\)](#) published by the China Academy of Information and Communications Technology, which lauded Web3's ability for users to control their own data and generate value from creating content.

The Whitepaper symbolises the efforts by China's state, private, and academic sectors to develop building blocks for the next generation of the internet. It introduces China's current achievements and future strategies spanning from artificial

intelligence, telecommunication, extended reality headsets, and even brain computer (with an honourable mention of Elon Musk's [Neuralink](#)).

Importantly, this publication is a signal of China's commitment to strengthen policy support and accelerate technological breakthroughs for a variety of industries including artificial intelligence and blockchain. It acknowledges the lead of the US in multiple fronts, and emphasises efforts by different Chinese states and regions – signalling that we might see a whole-of-state approach by China to challenge US technological dominance.

Moreover, it is another nod by China to the potential of blockchain and digital assets to underpin much of the digital foundations of industry, despite [multiple previous crackdowns](#) on the crypto sector by the CCP which shattered the Chinese crypto markets – which at one point were nearly the world's largest. Now the wind seems to be changing, after China's pilot of a [central bank digital currency](#), the launch of a [state-backed NFT trading platform](#), a Hangzhou [Court ruling](#) recognising NFTs as property, development of [a new blockchain network](#), and [Hong Kong's](#) newly minted crypto licensing regime for centralised exchanges.

Bali blocks visitor crypto contributions to the economy

The provincial government of Bali, Indonesia, intends to enforce stricter measures against foreign tourists who use cryptocurrencies for payments in hotels, restaurants, tourist attractions, shopping centres, and other establishments.

During a [press conference on tourism development](#) held last weekend, Bali Governor Wayan Koster said that foreign tourists that use cryptocurrencies for payments will face “resolute action”. The meeting was attended by Bali Police Chief Inspector General Putu Jayan Danu Putra.

Mr Koster stated that these strict actions may include deportation, administrative penalties, criminal consequences, closure of business premises, and other severe sanctions. He further reiterated the prohibition on using currencies other than the Indonesian rupiah for transactions within the country.

Under Indonesian law, individuals found using currencies other than the rupiah may be subjected to imprisonment for a maximum of one year and a fine of up to 200 million rupiah (US\$13,300).

Mr Koster said that those engaging in foreign exchange activities without permission from Bank Indonesia could also face imprisonment for a minimum of one year and a maximum of five years, along with a minimum fine of 50 million rupiah (US\$3,348) and a maximum fine of 22 billion rupiah (US\$1.473m).

While cryptocurrencies are permitted to be held as assets in Indonesia, the head of Bank Indonesia's Bali Representative Office, Trisno Nugroho, clarified that their use as a payment instrument is prohibited in the country.

Bali is a favourite destination for Australians, and has hosted a number of crypto and blockchain conferences, including the upcoming [Indonesia Bitcoin Conference](#) in October which will feature Jack Dorsey, but not, it seems, any actual payments in Bitcoin.

Circle expands EUROK to Avalanche Blockchain

Circle Financial, the leading peer-to-peer payments technology company behind the stablecoin USDC, recently announced the [expansion of its euro-pegged euro coin \(EUROK\) on the Avalanche blockchain](#). The [EUROK stablecoin](#) was first launched in 2022 on the Ethereum blockchain as an ERC20 token, with a vision to:

Unlock new opportunities for global commerce, faster and more efficient FX, and greater access to the euro around the world.

The EUROK is the second major fiat-pegged token introduced by Circle, following the USDC, which has a substantial market capitalisation of nearly \$29 billion. There are approximately [47.11 million EUROK in circulation](#) and it is held by nearly 1400 unique addresses, however its market capitalization is much smaller, at \$48 million. According to a tweet by the company, bringing the EUROK to be hosted natively on the proof of stake blockchain Avalanche will improve liquidity and flexibility to transact in Euro and enable:

Developers [to] build on top of [eurocoin] on Avalanche to deliver faster, more efficient solutions for users to send, spend, save, lend, and borrow with a fully reserved, euro-backed stablecoin.

Avalanche, following its launch in late 2020, has become one of the most rapidly growing Web3 ecosystems, with more than 8 million active wallet addresses. Described by Circle as an 'eco-friendly, decentralized smart contracts platform' that enables affordable and near-instant settlement transactions, it is currently used to drive numerous projects across DeFi, NFTs, gaming, institutional and enterprise. The native token of the Avalanche platform, AVAX, powers transactions within the Avalanche ecosystem and has a market cap of approximately USD\$4.7B.

The decision to launch EUROCC on the Avalanche network follows shortly after Circle's [USDC briefly lost its peg](#) over concerns about reserves trapped in Silicon Valley Bank which collapsed earlier this year.

Circle has highlighted its optimism for the EUROCC, noting that it is already receiving support from notable DeFi protocols and applications including Curve Finance, Cable Finance, Benqi and Pangolin Dex, among others. With the European Union actively discussing its own digital Euro, it remains to be seen whether the EUROCC will reach widespread usage similar to USDC as Circle deploys its multi-chain strategy for the Euro stablecoin.