

Article Information

Authors: Michael Bacina, Steven Pettigrove, Tim Masters, Jake Huang, Luke Higgins, Luke Misthos, Kelly Kim,

Service: Blockchain, FinTech

Sector: Financial Services, IT & Telecommunications

Blockchain Bites: Happy halvening! Bitcoin halving expected Saturday, Security Alliance launches ISAC to combat cyber threats in Web3, RBA CBDC survey finds consumers will pay for privacy, SEC issues Wells Notice to Uniswap, HK approves spot bitcoin and ether ETFs

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

Happy halvening! Bitcoin halving expected Saturday

Bitcoin, the world's largest cryptocurrency by market capitalisation, is approaching the next halving event, marking a 50% cut in rewards for mining new blocks on the Bitcoin blockchain.

Affectionately dubbed 'the halvening', the event was pre-programmed by bitcoin's pseudonymous creator, Satoshi Nakamoto, to create a predictable and deflationary economic model. When bitcoin first launched in 2009, the reward for mining new blocks on the blockchain was 50 BTC (approximately AUD \$5m today). This reward halves every 210,000 blocks which has been roughly every four years. To date, we have witnessed:

1. The first halving in November 2012, reducing the reward from 50 BTC to 25 BTC;
2. The second in July 2016, further reducing the reward to 12.5BTC; and
3. The third in May 2020, when it dropped to 6.25 BTC.

There are now over [1 million people worldwide](#) that hold bitcoin in their digital wallets.

The upcoming [halving is expected to occur on Saturday](#) morning Australian time as block reward are reduced to 3.125 BTC.

Bitcoin mining is how new Bitcoin is introduced into the system and how transactions on the Bitcoin Network are verified. The halving is a key part of Bitcoin's economic model. By decreasing the rate at which new bitcoins are generated, and capping supply, Bitcoin is intended to be deflationary. This programmed scarcity is similar to precious metals like gold, which have limited supplies and are labour-intensive to mine.

The reduced block reward means that mining becomes less profitable unless there is a compensatory increase in the price of Bitcoin. This economic pressure can lead to a shakeout of less-efficient miners and a consolidation in the mining industry towards more efficient operations.

Bitcoin mining has faced backlash due to the immense computational power and energy output required, leading the New York State Legislature to pass a bill blocking non-renewable crypto mining and the [European Union angling to ban bitcoin mining](#). However, a number of initiatives are ongoing to harness renewable or surplus energy toward mining.

The Bitcoin halving is a cornerstone event in the landscape of cryptocurrency, and has historically been coupled with a run

up in Bitcoin prices. This pattern has again unfolded in the lead up to the 2024, [boosted by the advent of Bitcoin exchange traded funds in the United States](#).

Happy Halvening to one and all!

Written by Michael Bacina, Steven Pettigrove and Luke Misthos

Security Alliance launches ISAC to combat cyber threats in Web3

[Security Alliance \(SEAL\) has launched an Information Sharing and Analysis Center \(ISAC\)](#) to enhance real time sharing of threat intelligence, and combat cyber hacks and financial crime in Web3.

SEAL ISAC is modelled on the ISAC framework [first pioneered by the Financial Services ISAC \(FS-ISAC\) in 1999](#). ISACs are non-profit, member-driven organizations focused on information sharing in “critical infrastructure” sectors - including technology, communication and financial services. The function of an ISAC is to collect, analyse, and distribute cyber and related threat information, which would otherwise remain siloed, responsibly and via secure networks. This is the first ISAC purpose built for Web3.

The SEAL ISAC is designed to:

1. Enhance information sharing in threat intelligence through an [Open Cyber Threat Intelligence Platform \(OpenCTI\)](#), so members can easily and safely share context, external references, observables (such as cryptocurrency wallet addresses), entities, and relationships.
2. Provide timely threat analysis and alerts to members to help them anticipate, identify, and mitigate potential attacks.
3. Disseminate best practices and guidelines for cybersecurity to help members implement effective security measures and policies, including playbooks for incident response.
4. Coordinate response mechanisms for major security incidents, such as exchange hacks or network attacks, facilitated through the [SEAL 911](#) Emergency Hotline.
5. Offer educational resources and training programs tailored to various stakeholders to raise awareness about security best practices and the latest threats.

[SEAL ISAC](#) is:

- Membership based and free to access
- Purpose-built for crypto on open source solutions
- Supportive for both centralized and decentralized entities
- Global from day 1
- Integrated with SEAL 911 and other SEAL initiatives

Early participants in SEAL ISAC include security teams from nearly two dozen organizations including Chainalysis, Ethereum Foundation, Filecoin Foundation, MetaMask, Polygon, Scroll, and Uniswap Labs. Additional participants are [listed on SEAL’s website](#). SEAL ISAC is also built with support from leaders in Ethereum, Polkadot, Solana, Filecoin, and other ecosystems.

The Security Alliance, or SEAL, is the [coalition behind several other security initiatives, including the Whitehat Safe Harbor, SEAL Wargames, which allows developer teams to simulate security incident scenarios](#), and the SEAL 911 Emergency Hotline, which enables users, developers and security researchers who need access to urgent security advice, help with disclosing a critical vulnerability, or to connect with a team of carefully vetted expert volunteers. Over the past 6 months, SEAL 911 has helped disrupt, intercept, and remediate several hacks, recovering over USD 50 million in crypto-assets.

Web3 security teams can [apply to join SEAL ISAC here](#).

Written by Steven Pettigrove and Michael Bacina

RBA CBDC survey finds consumers will pay for privacy

The Reserve Bank of Australia (RBA) has [published a research paper](#) exploring the merits of a retail central bank digital currency (CBDC), focusing on the extent to which consumers would value having access to a digital form of money that is

“even safer and potentially more private” than commercial bank deposits.

The paper, titled [Valuing Safety and Privacy in Retail Central Bank Digital Currency](#), contains the results of research on a selected group of consumers to learn how much they are willing to pay for added safety and privacy characteristics of a CBDC.

According to the RBA, the results suggest

the average consumer attaches no value to the added safety of a CBDC.

On the other hand, an average consumer may value a CBDC’s privacy benefits:

Privacy settings of a CBDC, which can take various forms, look more consequential for the CBDC value proposition.

According to the RBA, consumer’s lack of interest in added safety is unsurprising, as

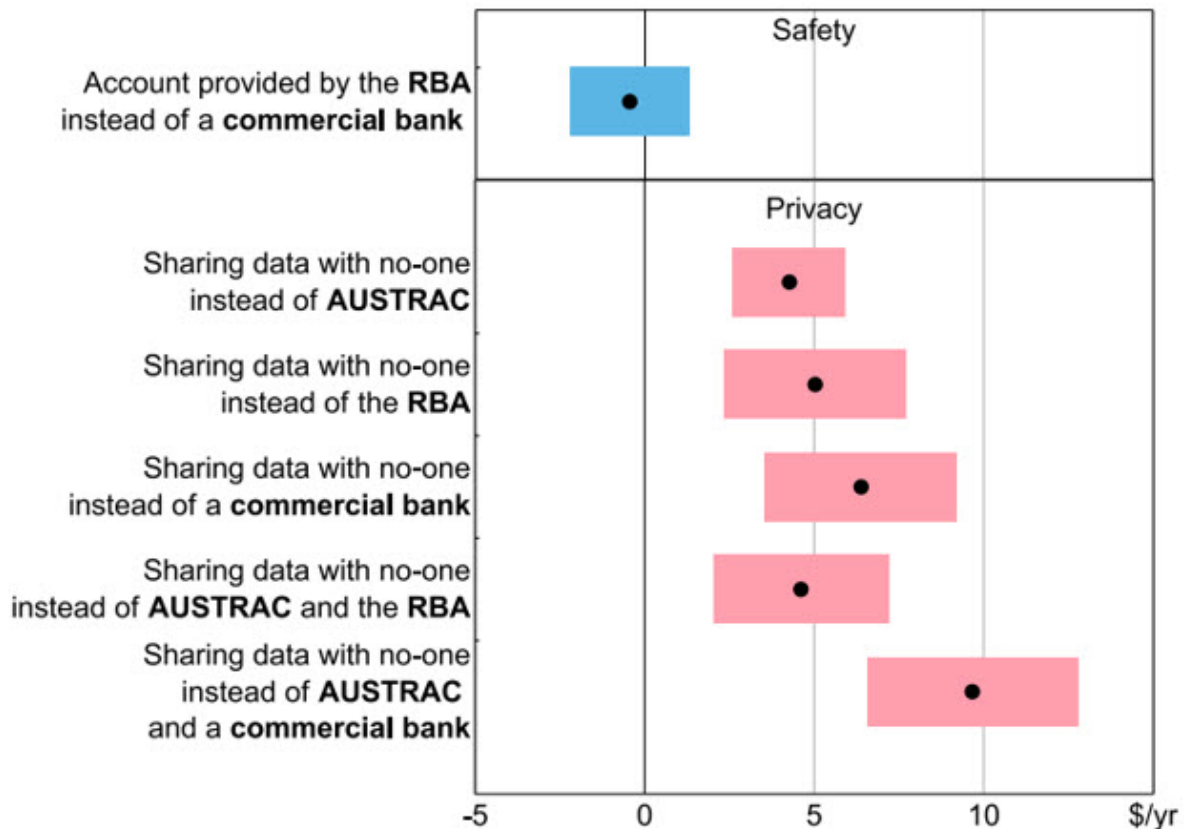
This is consistent with bank deposits in Australia already being perceived as a safe form of money, and physical cash issued by the Reserve Bank of Australia continuing to be available as an alternative option.

The RBA’s research used a technique called “discrete choice experiment”, which the paper says is designed specifically for assessing public valuations of goods without markets. This technique involves the RBA asking respondents to choose which bank account with randomised features they would find more attractive. The full set of features are shown in the table below (the respondent only saw one option for each account):

	Account A	Account B
What is the account fee? (Each cell contains 1 of 2 possible entries, randomised)	1. [\$20] or 2. [\$25] per year	1. [\$20] or 2. [\$25] per year
Who provides the account and is responsible for protecting the money in it? (Each cell contains 1 of 2 possible entries, randomised)	1. [The Reserve Bank of Australia] or 2. [One of the large banks already offering accounts in Australia]	1. [The Reserve Bank of Australia] or 2. [One of the large banks already offering accounts in Australia]
Who could potentially access my transaction data? (Each cell contains 1 of 4 possible entries, randomised)	1. [No-one. The transactions are encrypted and anonymous.] or 2. [Australia’s financial crime authority only] or 3. [Only {insert account providing entity}] or 4. [Only Australia’s financial crime authority and {insert account providing entity}]	1. [No-one. The transactions are encrypted and anonymous.] or 2. [Australia’s financial crime authority only] or 3. [Only {insert account providing entity}] or 4. [Only Australia’s financial crime authority and {insert account providing entity}]

The survey sought to assess consumers’ willingness to pay for the safety or privacy benefits of a CBDC by average Australian consumers. The RBA’s findings are summarised in the table below:

Figure 1: Estimates of Average Willingness to Pay
2022



Note: Shading shows 95 per cent confidence intervals, calculated using the delta method.
Source: RBA calculations, based on data from Ipsos.

According to the RBA, for Australians to value a retail CBDC enough to justify issuance,

the CBDC would need to deliver a value proposition other than safety.

This could be the privacy benefits brought by CBDCs, as

The average consumer values transaction anonymity and, to the extent that transaction data do need to be shared with other entities, the average consumer cares about who those entities are.

However, the RBA concedes that the technique they used for the survey is not perfect. For example, consumers may be affected by a psychological effect called “anchoring” when responding to the survey:

Since each participant chooses between the accounts displayed, they reveal only whether their valuation of the combined difference in safety and privacy characteristics is higher or lower than the difference in fees. There is no opportunity for individuals to offer their exact valuation.

There might also be a sampling bias, as the consumers who refused to participate in the survey might be those who have stronger privacy preferences:

this would introduce a form of sample selection that downwardly biases our estimates of privacy... For example, people that are most averse to sharing data with government agencies might be those that are most likely to refuse to participate in an RBA-branded survey.

Despite the paper's apparently broad scope, the questions posed to consumers were in fact quite narrow and rather limiting, focusing only on whether consumers are willing to pay for certain features. On one view, the research does not determine one way or another whether there is consumer appetite for a CBDC generally, or explore other benefits or use cases for a CBDC. This would require a broader set of questions and policy considerations. The key takeaway appears to be that consumers value privacy and are willing to pay for it, whether that is in the form of a CBDC or a traditional bank deposit.

The paper is a continuation of the RBA's research and development efforts on CBDCs following its [successful CBDC pilot which identified several potential innovation benefits](#) of a CBDC. The RBA and Treasury are expected to [publish a joint report around the middle of 2024](#) that will provide a stocktake on their CBDC research in Australia and set out a roadmap for future work.

Written by Jake Huang and Steven Pettigrove

SEC issues Wells Notice to Uniswap

The Securities and Exchange Commission (**SEC**) has issued a Wells Notice to Uniswap Labs, the developer of the decentralised cryptocurrency exchange, Uniswap.

A Wells Notice is issued by the SEC to inform a person or entity that it has concluded an investigation and intends to bring charges for securities violations. The recipient is typically given an opportunity to file final submissions explaining why charges should not be brought against them. The issuance of a Wells Notice is typically followed by enforcement action.

[According to Uniswap's Chief Operations Officer, Mary Catherine Lader, the contents of the Wells Notice centre](#) around Uniswap acting as an unregistered securities broker and an unregistered securities exchange. It is not immediately clear whether the allegations also relate to the exchange's governance token, UNI.

Uniswap's Chief Executive Officer, Hayden Adams took to X announcing that Uniswap was "ready to fight" the SEC should it pursue enforcement action.

I am confident that the products we offer are legal and that our work is on the right side of history.

But it's been clear for a while that rather than working to create clear, informed rules, the SEC has decided to focus on attacking long-time good actors like Uniswap and Coinbase. All while letting bad actors like FTX slip by.

The SEC has pursued a long running regulation by enforcement strategy asserting that existing securities laws are clear, and token issuers and exchanges should "come in and register". However, there is no clear path for most crypto businesses to register with the SEC. Attempts to register have met with little success and have been often followed by enforcement action. The SEC's own commissioners have made this point in several stinging dissents, [including Hester Pierce's recent dissent in the ShapeShift settlement](#).

Mr Adams added:

I'm frustrated that the SEC seems to be more concerned with protecting opaque systems than protecting consumers. And that we'll have to fight a US government agency to protect our company and our industry.

This fight will take years, may go all the way to the Supreme Court, and the future of financial technology and our industry hangs in the balance. If we stand together we can win. I think freedom is worth fighting for. I think DeFi is worth fighting for.

In a blog post, the company stated:

Despite SEC rhetoric that "most" tokens are securities, the reality is that tokens are a digital file format, like a pdf or spreadsheet, and can store many kinds of value. They are not intrinsically securities, just as every sheet of paper is not a stock certificate.

Hayden Adams invented the Uniswap Protocol as an experiment to build software that embodied the benefits of the decentralized Ethereum blockchain. Accordingly, Uniswap is often viewed as a pioneer of decentralised and permissionless software applications. The company has openly carried on operations in the United States despite legal uncertainty in recent years. While the SEC's action is likely only the first step in a battle for the future of DeFi, it is likely to have a chilling effect on blockchain based innovation in the United States.

Written by Michael Bacina, Steven Pettigrove and Luke Misthos

HK approves spot bitcoin and ether ETFs

On Monday, [Hong Kong Securities and Futures Commission \(SFC\) approved the launch of spot bitcoin and ether exchange-traded funds \(ETFs\)](#). Prominent asset management companies including ChinaAMC, Harvest Global and Bosera International were given the initial green light to bring these ETFs into the Hong Kong market.

Following the regulatory approval to provide 'virtual asset management services', fund managers have promptly commenced the works necessary for its development. ChinaAMC stated that it is 'actively deploying resources in the development' of a spot bitcoin and ether ETF while Harvest Global appointed [OSL Digital Securities, a leading licensed digital asset platform as their sub-custodian](#). OSL welcomed the partnership in a statement:

We are honored to support this milestone

BTC/ETH ETFs...[are] a transformative vehicle for funnelling substantial funds and investors into the digital asset space. The direct exposure mechanism these ETFs offer simplifies investment in digital assets like Bitcoin, enhancing accessibility and market liquidity.

Bitcoin and Ether ETFs have great potential to drive global adoption of cryptocurrency, by allowing investors to be exposed to the asset class without the burden of owning the cryptocurrency directly. This will encourage more traditional and risk averse investors to enter the market.

If successfully launched, Hong Kong will be among the first jurisdictions in the world to issue a spot ether ETF. With the [recent success of spot Bitcoin ETFs seeing billions of dollars in investments within a couple of months of launching](#), a spot ether ETF will be crucial for driving mainstream adoption of more cryptocurrencies.

While crypto remains largely banned in mainland China, Hong Kong is emerging as the next crypto hub, following the footsteps of crypto-friendly jurisdictions like Singapore and Dubai. Hong Kong's approval follows the approval of the [first spot Bitcoin ETFs in the US in January, which](#) was welcomed by the industry. [With major US banks backing Bitcoin ETFs](#) and more jurisdictions joining the wave, this marks a turning point in the global adoption of bitcoin and ether.

Written by Kelly Kim and Tim Masters