

## Article Information

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# Blockchain Bites: Bank of Canada CBDC analysis, ASX delays CHES replacement, Digital assets on the agenda at the CFTC and FCA, Telegram and SEC settlement

**Michael Bacina, Tom Skevington and Louisa Xu of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.**

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### Bank of Canada releases comprehensive CBDC analysis

Canada's central bank, the aptly named [Bank of Canada](#) (or *Banque du Canada* for our Québécois readers) (**BOC**) has released a set of comprehensive staff analytical notes considering the design, security, privacy and use of Central Bank Digital Currencies (**CBDCs**). Although the BOC has [already announced](#) that it is working on a prototype CBDC, these notes reveal more detail about how the BOC is approaching the CBDC problem.

The BOC has published the following analytical notes:

1. [CBDC adoption and usage: some insights from field and laboratory experiments](#), by [Janet Hua Jiang](#);
2. [Security of a CBDC](#), by [Cyrus Minwalla](#);
3. [Designing a CBDC for universal access](#), by [John Miedema](#), [Cyrus Minwalla](#), [Martine Warren](#) and [Dinesh Shah](#);
4. [Privacy in CBDC technology](#), by [Sriram Darbha](#) and [Rakesh Arora](#).

### Another CHES replacement delay at the ASX

The ASX has confirmed in a [June 30](#) announcement that it has decided to officially delay the rollout of its DLT replacement for CHES until April 2022, one full year behind the initial target launch date.

Despite the delay, the ASX identified the following milestones which have been reached since it's previous timeline [update in March 2020](#):

1. The CHES replacement application and the distributed ledger have been successfully deployed to several ASX technology environments across multiple data centres;
2. A seventh software drop has been deployed on schedule into the customer development environment (CDE), which represents 89% of the core clearing and settlement functionality used by customers;
3. Thirty-four organisations have connected to the CDE, including software providers, brokers and share registries.

### Tax Time: The most wonderful time of the year?

With the 2020 financial year behind us and the 2021 financial year looming, now is the time that digital asset users, businesses and advisers ought to be considering the preparation of their tax returns, and making sure they've accurately reported their digital currency related activity.

Taxpayers ought to be particularly aware of their obligations this year, following the [ATO's forewarned crypto-crackdown in March 2020](#), which involved more than 350,000 letters being sent to Australian taxpayers identified by the ATO's data matching protocol as being associated with digital currency activity. The ATO warning letters closely resemble the American [IRS 6174](#) and [6174-A](#) letters, and follow the Joint Chiefs of Global Tax Enforcement's bid to tackle cryptocurrency and cybercrime-related risks.

## **Distributed ledger technology on the agenda for CFTC**

The [US Commodity Futures Trading Commission](#) has [announced](#) that the Technology Advisory Committee will hold a public meeting to discuss automated and modern trading markets, distributed ledger technology, market infrastructure, virtual currencies and cyber security on 16 July 2020.

The meeting will take place via teleconference where the public can [dial in](#) and make submissions beforehand. The time difference may make it challenging for Australian's to attend unless they wish to dial in at midnight AEST.

The Technology Advisory Committee [previously held a meeting](#) to address issues on audit trail requirements, stablecoins, crypto insurance, custody and digital asset self-regulating organisations in February 2020. It also included presentations by [MakerDAO](#), [JP Morgan](#) and [Paxos](#) in relation to their stablecoins. You can access the recording of the meeting and presentations [here](#).

## **Application anarchy in the UK: FCA deadline looms for cryptoasset applications**

Tuesday, 30 June 2020 was the [last day](#) for businesses which carry out cryptoasset activity in the UK to lodge their applications for registration with the [FCA](#), if they wanted to start operating on the implementation date of 10 January 2021. The FCA became the AML/CTF supervisor of UK cryptoasset businesses from 10 January 2020, in accordance with the [Money Laundering, Terrorist Financing and Transfer of Funds \(Information on the Payer\) Regulations 2017](#) (MLRs).

While the actual registration requirement does not become active until 10 January 2021, today's deadline was set by the FCA to allow them sufficient time to review submitted applications and raise any follow-up questions with firms, with enough time for that process to be completed before 10 January 2021.

## **Telegram and SEC settle on \$18.5M penalty**

[Telegram](#) and the [SEC](#) have [settled](#) their long-standing dispute regarding Telegram's ICO, with Telegram agreeing to pay a civil penalty of \$18,500,000. In doing so, Telegram does not admit or deny any of the allegations in the SEC's initial [Complaint](#). This settlement follows Telegram's [announcement](#) that its work on the Telegram Open Network (**TON**) project was being discontinued.

The \$18 million civil penalty must be paid to the SEC within 30 days of the judgment, which was entered on 11 June 2020. The SEC also leaves the door open for additional civil penalties in future, if the SEC:

*"obtains information indicating that Defendants knowingly provided materially false or misleading information or materials to the Commission"*

In addition to the civil penalty, Telegram is liable to disgorge up to \$1.22 billion, offset by \$1.19 billion paid as "termination amounts" in investors' purchase agreements and the amounts that some investors loaned to Telegram earlier this year. This payment must be made within four years.

## **Australian PM considers importance of Blockchain during COVID**

On 15 June 2020 the Prime Minister of Australia, the Hon Scott Morrison, [announced](#) that he is bringing the existing [Deregulation Taskforce](#) into the Department of the Prime Minister as part of the Job Maker Program with a substantially increased potential of adopting blockchain for Regtech and business efficiency.

The Prime Minister said:

*"COVID has shown that our laws have not kept pace with digital technology when it comes to business communications. For example, by requiring businesses to use paper for storing information instead of using electronic delivery **or adopting new technologies such as Blockchain** ... Today I am announcing that I am bringing the deregulation taskforce into my own hands into my own department... as part of the Job Maker agenda"*

In a [statement](#) released on the same date, the Federal Government has identified one of the priorities of the [Deregulation Taskforce](#) as modernising business communications.

## **QuadrigaCX Exchange "hack" actually a ponzi scheme: Ontario Securities Commission**

The powerful Ontario Securities Commission has been investigating the collapse of Canadian Digital Currency Exchange, QuadrigaCX, since the founder of that exchange, [Gerald Cotton](#), died in India while on honeymoon, supposedly taking with him the password to an encrypted laptop holding the private keys to CAD\$200M of digital currency wallets held by the exchange.

The OSC has taken the unusual step of [publishing a report into the matter](#), to firmly dispel any notion that Mr Cotton had faked his own death or that digital currency was trapped in wallets with the private keys lost, but rather that Mr Cotton was running a ponzi scheme up to his death.

Ernst & Young, the independent monitor appointed over the company, investigated the matter and published [reports](#) identifying that digital currency wallets did not hold any meaningful amounts.

### **Coinbase CLO converts to currency Comptroller**

Brian Brooks, former Chief Legal Officer at Coinbase, has [become](#) the acting Comptroller of Currency at the United States' Office of the Comptroller of the Currency (**OCC**). The OCC is America's regulator and supervisor for all US national banks, federal savings associations and federal branches or agencies of foreign banks.

In a [statement](#) following his appointment, Brooks outlined his commitment to innovation, saying:

*"We should approach our work not just with an eye to the next year, but to ensure the federal banking system adapts to the changing needs of consumers, markets, and the nation for the next 50 or 100 years."*

### **Trash to treasure: Garbage PailKids NFTs sell out in 28 hours**

Taking nostalgia value to a whole new level, after [announcing plans](#) to launch Non-Fungible Tokens (**NFTs**) representing the iconic (and awesome) GarbagePailKids (**GPK**) trading cards, [WAX Exchange](#) sold 12,000 GPK Card Packs containing 110,000 cards to collectors in just [28 hours in May](#).

The NFTs for GPK, a [Topps brand](#), were launched on the WAX Blockchain this month. There were in total 12,000 packs containing 110,000 cards. The GPK cards continue to be traded (currently at a premium) on various secondary marketplaces like [SimpleMarket.io](#). Word on the street is that a new release is coming soon, so stay tuned.

WAX exchange was initially built on Ethereum, but WAX notes that:

*"We soon realised this was not sustainable for us. With the high fees and low speeds we could not run our trading platform where hundreds of thousands of digital items (called NFTs or non-fungible tokens) would be traded."*

Ultimately, this led to WAX exchange transitioning to its own WAX Blockchain to avoid congestion issues.

### **Security Token liquidity: Are we there yet? Are we there yet? When are we going to get there?**

For the last few years, the potential for security tokens to disrupt traditional financial markets has been a beacon of hope to blockchain enthusiasts and investors and a mantra chanted at many blockchain conferences.

Of course, the prospect of tokenising conventionally illiquid assets, so as to make those assets accessible and tradeable with minimal transaction costs, virtually no minimum investments, and everywhere at anytime is a tantalising prospect. To date, those hopes have yet to crystallise at scale.

Among countless theories as to why, Brian Farber, General Counsel at [Securitize](#), recently [published his thoughts](#) summarising the four key reasons why he believes that security token liquidity has failed to meet expectations to date, including:

1. Security Tokens are inherently different to cryptocurrencies;
2. Information asymmetry prevents effective valuation;
3. Security Token marketplaces are young, and not designed optimally; and
4. Blockchain is both a blessing and a curse.

[More details here.](#)

### **Chainalysis expands services to cover zcash and dash**

Blockchain analysis company [Chainalysis](#) has expanded its Reactor and Know Your Transaction (**KYT**) service offerings to cover multiple additional digital assets, including [Algorand](#), and (in)famous privacy tokens [zcash](#) and [dash](#).

In its [announcement](#), Chainalysis suggests that privacy coins such as zcash and dash are not as private as most users might expect. In particular, Chainalysis claims that:

The two cryptocurrencies' [zcash and dash] privacy features - both in how they're built as well as how they're used in the real world - leave room for investigators and compliance professionals to investigate suspicious or illicit activity and maintain compliance,

Chainalysis's blog post unpacks the above further, and includes an explanation of how Chainalysis can undermine the privacy features of each asset. For Dash, Chainalysis identifies that as a fork of Bitcoin, Dash's inherent structural similarity to Bitcoin allows the techniques that Chainalysis uses on CoinJoin bitcoin mixers can be applied to work on dash. Further, Dash's key privacy feature '[PrivateSend](#)' is only used by a minority of its users.

### **Coincheck confirms data breach, exposing personal information**

Japanese cryptocurrency exchange [Coincheck](#) has [announced](#) that it has suffered a data breach, resulting in a users' emails and personal information being leaked.

Information that has been leaked, includes: users' names, registered addresses, birth dates, phone numbers and selfie IDs.

The breach has impacted approximately 200 customers who had made email inquiries from 31 May 31 to 1 June 2020. Coincheck said that an unauthorised third party accessed its domain registration service and "*fraudulently*" accessed customer emails. Since the announcement, the Coincheck's domain registration has been amended.

### **Coinbase courts controversy seeking US Government contracts**

Coinbase has offered to provide a cryptocurrency investigations tool called "*Coinbase Analytics*," to a number of US agencies, including the Drug Enforcement Administration (**DEA**) and the Internal Revenue Service (**IRS**). In doing so, Coinbase has ignited fierce debate in the digital currency community about privacy.

The [publicly available procurement documents](#) show that each of the IRS and DEA intend to purchase licenses to use the Coinbase Analytics platform to monitor Coinbase's users legal compliance. The IRS documents also suggests a connection between Coinbase's proposed offering and their 2019 acquisition of Neutrino. The IRS document also say:

1. In addition to the Bitcoin Blockchain, Coinbase Analytics (fka Neutrino) allows for the analysis and tracking of cryptocurrency flows across multiple blockchains that criminals are currently using.
2. Coinbase Analytics also provides some enhanced law enforcement sensitive capabilities that are not currently found in other tools on the market.