

Article Information

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Blockchain Bites: KoreNodes launch, international updates and tax

KoreConX has announced the launch of its KoreNodes, Lithuania, Canada and China update regulation, and resolving crypto tax. Michael Bacina, Tom Skevington, Louisa Xu and Petros Xenos of the Piper Alderman Sydney Blockchain group bring you a round-up of the latest legal, regulatory and project updates in Blockchain.

KoreConX Launches KoreNodes in 23 Countries

[KoreConX](#) has [announced the launch](#) of KoreNodes in twenty-three countries and five major regions around the world. KoreNodes are fundamental nodes of the KoreChain. KoreConX aim for Node operators to be regulated entities including; secondary market operators, lawyers (disclaimer: Piper Alderman is exploring operating a Kore Node), auditors, transfer agents, due diligence providers, KYC/AML providers, share registries, corporate registries to participate in the KoreChain. Only entities that are regulated in at least one jurisdiction will be allowed to operate KoreNodes. This balanced approach is aimed at unlocking the benefits of a decentralised future. Piper Alderman will be trialing a Kore Node in the near future.

Bakkt announces bold plans for digital asset evolution

Mike Blandina, Chief Product Officer of Bakkt, recently [released a blog post](#) outlining plans to build trust in digital assets, emphasizing the need for a “trusted, compliant infrastructure to build confidence and efficiency for merchants, consumers, and institutions to participate more actively in Bitcoin and crypto markets.” Bakkt sets out four mechanisms by which this is to be achieved:

1. Diminishing the friction in the use of digital assets
2. Launching a consumer app to make it easy for consumers to discover and unlock the value of digital assets, as well as ways in which they can transact or track them.
3. Developing the concept of a consumer-driven platform
4. Advocating for consumers who remain outside or hesitant to enter into the digital asset space

It's not yet clear precisely how Bakkt will exchange digital assets into fiat currency at point-of-sale and how much that will involve a blockchain system, the overarching sentiment in ‘unlocking the value of digital assets’ is positive and sure to drive greater use of digital assets.

Lithuania Issues First Guidelines on Digital Security Offerings / Security Token Offerings

The Bank of Lithuania has [issued its first set of guidelines](#) for Digital Security Offerings / Security Token Offerings. The Guidelines have been developed by the bank to “assist market participants in understanding whether tokens they have employed, fall within the regulatory and supervisory financial markets framework,” and “clarify ... expectations for market participants carrying on activities related to tokens qualified as transferable securities or other financial instruments within ... Lithuania.”

The bank considers that tokens that meet the relevant conditions should be treated as equivalent to financial instruments and regulated from a technology neutral perspective. This means that the application of financial markets legislation does not depend on the fact of whether any technology is used or what kind of technology is used.

Ontario Onward towards First Regulated Security Token Startup

The Ontario Securities Commission has [green-lit TokenGX's request to facilitate secondary-market trading](#) of security tokens. The platform will be released as a pilot program supporting security tokens until 2021. The pilot program, called 'FreedomX,' will run until 17 April 2021 and is restricted to Ontario residents only. KYC/AML requirements will apply, and unlike most other secondary marketplaces, the new security token platform will target both retail and institutional investors.

Although Canada is not known for boasting a large amount of cracking headlines around the crypto news sphere, this past April a Canadian-based crypto-asset portfolio manager [announced it would be holding an Security Token Offering](#). The Bank of Canada has also been experimenting with some blockchain proof of concepts, as part of JP Morgan's new initiative, the [Interbank Information Network \(IIN\)](#). Toronto is of course the home of [Vitalik Buterin](#), one of the co-founders of Ethereum.

Breaking down the complex web of crypto and tax with Digital Tax View

Spoiler alert, most Western tax systems rely, to a pretty significant extent, on the honesty of citizens. That reliance has been tested in the past 10 years by cryptocurrency trading permitting individuals to make significant gains without the government having a clear way to catch people who don't do properly report. While the Australian Tax Office has been a leader in publishing guidance, the practical lack of tax tools to help traders has consistently been a problem. The uncertain nature of tokens and their treatment at law has not helped this, leading to a lot of people simply not reporting their gains in crypto. That is of course changing rapidly as the Australian Taxation Office collects data from exchanges to match up with reported gains and losses. Two interesting Australian solutions are helping to solve this problem. They can't make the tax go away, but at least they can help the process be smoother.

The first is the [KPMG built tax tool within Independent Reserve's website](#), which is a great value add to that exchange so customers can generate reports for their accountant for tax time. The second is a more platform agnostic tool called [Digital Tax View](#), which supports a number of exchanges (including [Binance](#), [BTCMarkets](#), [Coinspot](#), [Kraken](#), [Kucoin](#), [Poloniex](#) and the oldest exchange in Australia [Independent Reserve](#)) and which may be more useful if a trader happens to spread their trading around (or trade in tokens which are listed on different exchanges).

China connects the links for a blockchain focus into the future

Chinese President Xi Jinping has recently [emphasised the importance of China seizing the opportunity presented by blockchain technology](#) speaking about how "the application of blockchain technology has extended to digital finance, Internet of Things, intelligent manufacturing, supply chain management, digital asset trading", and how it is, "necessary to promote the deep integration of the blockchain and the real economy." This is a very significant step for a major global power to be endorsing blockchain in such strong terms. The price of bitcoin promptly shot up by 40%, only the third time that has ever occurred.

Hot on the heels of the President's speech, the National People's Congress in China has passed a "Cryptography Law". Commencing on 1 January 2020 and based on a draft proposal released in July 2019, the new law provides that clear guidelines and regulations are needed to evaluate commercial cryptography technologies used in the major. These moves in China show that politicians need to step up and recognize the faster a deep integration of blockchain occurs into the real economy, the better our society will be equipped to reap the benefits of this new technology. A good first step would be clearer guidance and safe boundaries for ventures using this exciting technology to grow and enhance our lives and economy, and further government projects to deploy more tests and prototypes to show what can be done with Blockchain.

CEO of Crypto Capital indicted in NYC

Mr Oz Yosef of Crypto Capital, the former provider of payment processing to Bitfinex, has been indicted on three criminal charges in New York. Earlier this year Bitfinex was accused by the New York Attorney's office of losing USD\$850M and covering that loss with funds from Tether, possibly leading to Tether's becoming backed by less than the USD\$1 per Tether as claimed. In addition to Mr Yosef, Mr Lee, the president of Crypto Capital, was [arrested on a Polish](#) European Arrest Warrant last week on suspicion of money laundering and possible drug connections.

Following that arrest, Bitfinex issued a [statement](#) in which they alleged, "Bitfinex is the victim of a fraud... any suggestion that Crypto Capital laundered drug proceeds...at the behest of Bitfinex or its customers is categorically false." Given the [long running concerns over Bitfinex/Tether](#), it's anyone's guess as to how this will end.

ASIC Annual Report provides update on action taken against ICOs

The [ASIC Annual Report 2018-19](#) provides updates on action taken by ASIC concerning crypto-assets and how ASIC is

“supporting legitimate crypto-asset business[es] in operating lawfully” through the issue of the updated [Information Sheet 225 Initial coin offerings and crypto-assets](#). The Report noted that at the May 2019 at the [International Organization of Securities Commissions](#) Annual Meeting and the ASIC Annual Form 2019, issues around crypto-assets, artificial intelligence and machine learning, market fragmentation in securities and derivatives markets, and retail distribution and digitization were all discussed.

Issues around crypto-assets and initial coin offerings in Australia were also discussed at the [Digital Finance Advisory Panel](#) which helps ASIC support innovation in financial services and markets. The members of the Panel consist of representatives of Treasury, [APRA](#), the [Reserve Bank of Australia](#), the [Office of the Information Commission](#), the [ACCC](#), [AUSTRAC](#) and [Austrade](#). Industry comments around the past INFO225 guidance are laid bare in the [submissions](#) by numerous parties to the Treasury review into Initial Coin Offerings, specifically requesting that guidance be more prescriptive to give greater certainty to crypto-businesses which are presently carefully looking at offshore options rather than remain in Australia. [Blockchain Australia](#) and others are working towards obtaining this certainty, but the wheels of regulation move slowly and carefully.