

EXPLAINER

# How Industry-Government Collaboration Can Drive Blockchain Adoption



Industry can play a significant role in fintech governance. Photo: ADB.

*In Australia, the private sector is working with regulators to maximize the benefits of blockchain technology and minimize its risks.*

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## Introduction

Over the recent years, a growing number of public and private sector entities have been exploring the use of blockchain technology to develop products and services and to improve business processes. Most efforts, however, have focused more on the technical aspect, overlooking the need for a legal and regulatory framework. As the application of blockchain is still in its early stage, engaging policymakers and regulatory bodies is critical to ensure that appropriate regulations are in place.

During a one-day workshop at the Asian Development Bank, Nick Giurietto, CEO and managing director of the Australian Digital Commerce Association (ADCA), shared their experience in Australia in engaging and influencing policymakers to create an enabling environment for blockchain innovation.

ADCA is the industry body that represents Australian businesses participating in the digital economy through blockchain technology. It encourages responsible adoption of blockchain technology by industry

and government across the country as a means to drive innovation in service delivery for all sectors of the economy.

## The Need for Appropriate Regulation

The potential of blockchain to offer a secure, transparent, accurate, and immutable way to manage transactions can improve the way businesses and organizations work. Governments will play an important role in shaping how blockchain will evolve. Policies and regulations must harness the opportunities and address the challenges that the technology presents.

Cyber-security and data privacy are among the issues that regulations must address. The increasing value of data has raised questions on data protection and ownership. At the same time, the use of online platforms has made businesses vulnerable to cyber-attacks. Digital products and services should be designed and developed with regulatory, cyber-security, and data privacy compliance integrated on the outset.

However, lack of understanding can cause governments to issue regulations that will discourage the use of blockchain and stifle innovation. This was initially the case in Australia. The Australian Taxation Office (ATO) regarded digital currency as a commodity (not money). As such, under the Goods and Services Tax (GST) rules, bitcoin would be subject to double taxation—first, when exchanging Australian dollars for bitcoins, and second, when using bitcoins to purchase actual goods or services. Thus, consumers ended up paying GST twice. This put digital currency-related businesses at a disadvantage. It had the unintended consequence of causing two Australia-based bitcoin exchanges to move to London to avoid double taxation.

Some governments have even gone as far as to issue bans on cryptocurrencies and initial coin offerings (ICOs) due to the growing number of scams and illegal activities associated with them. This is not the most sensible approach as bans very rarely work in the regulation of an industry. Instead, governments must recognize the benefits and problems, and find a way forward.

## Getting Regulation Right

Being on the receiving end of these regulations, private-sector stakeholders must be proactive in influencing the regulation of the blockchain space. ADCA's approach was to establish a relationship with regulators and to undertake education and policy engagement with policymakers, lawmakers, and other key decision makers. ADCA helped to clarify issues for government and to bridge the gap with businesses. For example, with the double taxation issue, ADCA started discussions with tax authorities, explaining how bitcoin works and why it shouldn't be subject to GST. As a result, as of November 2017, tax rules have been changed so that digital currency is no longer considered a commodity.

Another approach is through self-regulation whereby the private sector organizes itself to ensure adherence to industry standards. With private sector taking on this responsibility, unnecessary government interference and questionable regulatory legislation can be avoided. At the same time, it

can resolve the issue of lengthy government processes and weak enforcement.

ADCA initiated the development of the Australian Digital Industry Code of Conduct to help consumers identify digital currency businesses that have best-practice standards in place. The Code covers fit-and-proper-person test, consumer protection, and anti-money laundering/countering terrorist financing (AML/CTF). Companies must pass an external audit before receiving a certification of compliance with these standards.

In developing the Code, a consultative approach was followed to secure support and buy-in from stakeholders. Key regulators were included in the discussion to gather their feedback. In the process, ADCA was also able to educate regulators and help change any negative perception of blockchain. More importantly, ADCA earned the right to be involved in the formal regulatory process that came after.

## Coordinating Mechanisms

Instituting mechanisms and structures can help facilitate industry and government engagement. ADCA established the Industry Advisory Council, which is composed of respected business leaders that are interested in blockchain and blockchain entrepreneurs. By bringing these parties together, the private sector, as one body, can approach key government officials to influence the regulatory perspective. ADCA also facilitated the creation of the Parliamentary Friends of Blockchain. Patterned after a similar body in the United States Congress, Parliamentary Friends is composed of bipartisan members of the parliament who believe that blockchain is an area of national importance. The members engage in dialogue on how to move forward the adoption of blockchain technology in Australia. The group also serves as a channel between industry stakeholders and members of parliament. To date, 37 out of 225 members of the federal government have signed up to be part of the group.

## New Regulatory Models

RegTech refers to the use of technology in the in the context of regulatory monitoring, reporting, and compliance. In this regard, ADCA has been thinking strategically in terms of how blockchain can transform regulation. Blockchain has the potential to create an entirely new regulatory model, moving away from burdensome reporting towards a scenario where only compliant transactions occur in the first place. This can be done through the use of smart contracts so that a transaction only takes place when certain conditions are met. Alternatively, the regulator can become one of the nodes in the blockchain that can view all transactions subject to policy rules. It will be up to the regulator to monitor the transactions for suspicious behavior.

For example, if transactions in the stock exchange are placed on the blockchain, tax authorities could have smart contracts that assess transactions and calculate any tax obligations that may arise. Further, by using smart money, these obligations could be remitted to the treasury department in near real time.

Another use case would be in anti-money laundering. Blockchain can be used to record the fact that know-your-customer checks were carried out, the data relied upon, and the provenance of data. The

record can serve as proof to regulators that due diligence was conducted.

## Conclusion

Australia, together with Singapore and Switzerland, is one of the leading jurisdictions that are studying blockchain regulation. The key is to have a joined-up regulatory response by creating a system among different regulators and stakeholders affected by the technology.

Supervisory and regulatory frameworks should enable innovation while ensuring stability, consumer protection, and competition. This can be best achieved through clear and active collaboration between regulators and industry players.

## Resources

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Nick Giurietto is a B2B marketing and product professional. He has held senior

management roles with Gartner subsidiary CEB, Experian Australia, the federal government's export credit agency Export Finance and Insurance Corporation, and telecoms company AAPT. He is a founding member of the Global Blockchain Forum and a member of Standards Australia's Technical Working Committee on Blockchain and Distributed Ledgers.

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