

Dear Treasury

28 February 2019

Thank you for the opportunity to provide this submission.

This consultation would have been timely back in 2017.

Now we are here.

Of the ICO's that arose in the past 2 years, how many were a great investment? Not many.

Numerous Australian ICO's are now backtracking on the promises made to their investors.

Most Australian ICO issuers converted investment crypto to fiat then spend most of the money on unrelated expenses.

Some ICO's had a strong focus in the beginning that fizzled out with no recourse available to investors (see Horizon State). Meanwhile, issuers live comfortable lives.

While drafting regulations, it is important to retain the key, powerful elements of ICO's that set this fundraising method apart from others.

- It is a global fundraising method that cuts out the middleman. People arguably have greater freedom over how they enforce and manage their investments. Traditional investment systems are difficult to break into for many people but ICO's don't hold many barriers.
- Few restrictions on participation exist. Notably when the US took a protective stance, the number of ICO's reduced significantly.
- AML/KYC mechanisms are not fool proof but they do seek to identify investors. The process of gathering personal ID data should not happen lightheartedly.
- White papers outline business ideas and plans. White papers could take a formal, legal form similar to a prospectus. This would make issuers somewhat accountable for promises made.
- Token models may or may not encourage speculative trading. If they do encourage speculative trading, it is not up to the government to restrict that. People can make their own decisions about what they perceive is valuable. Take antiques or crypto kitties, for instance. The issue is when people are not informed properly about what the ICO issuer is doing, who the ICO issuer is, and if they are abiding by their word or if they have taken the crypto and abandoned the project.

Take note that the above focuses on the unique ICO model.

Other fundraising models are arising. This is because investors have lost trust in issuers / the market being fair, plus the regulatory uncertainty about ICO's has reduced the number of ICO's that are conducted. There is simply less to invest in now, regardless of whether or not the project is appropriate to the ICO model.

Focusing on the traditional ICO fundraising model may again result in a long Treasury consultation latency period. It would be wise to consult with active blockchain / crypto start ups directly, or the lawyers who represent them, to gain an idea about how they want to raise money outside of the traditional financial market.

If Australia does not anticipate ICO alternatives, and does not offer protections to ICO investors and obligations on ICO issuers, then start ups will move to more favourable regulatory regions.

Tax.

Tax on investment / issuance could echo the existing regime. But once again, start ups will leave if the aim of the government is to tax as much as possible without offering any protections offered to existing financial market system players.

Instead of pulling rules out of thin air, partner with global regulators to work on a solution together. Consult with industry participants more. Stop focusing on punishing investors through tax and start facilitating a conducive regulatory environment by supporting innovation and investment, but holding issuers to account on promises. Anticipate changes. Model potential outcomes.

Work quickly.

Thank you again for the opportunity.

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