



3 March, 2023

Via electronic submission to: crypto@treasury.gov.au

Director – Crypto Policy Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Re: Request for Comment on the Token Mapping Consultation Paper

To the Director of the Crypto Policy Unit:

Lukka thanks you for the opportunity to respond to The Australian Government the Treasury's Token Mapping Consultation (hereafter "the Consultation") request. We are writing in support of the token mapping initiative, and to also provide input on how the use of well-designed and authenticated data solutions can aid consumer protection, and improve regulators and policymaker's understanding of the crypto asset ecosystem.

About Lukka

Founded in 2014, Lukka serves the most risk mature businesses and governments in the world with institutional grade data and data-based risk management solutions. Lukka bridges the gap between the complexities of blockchain data and traditional regulatory and business needs. Our customers include both Traditional and Crypto-Asset Exchanges and Trading desks, Government Tax Authorities and Regulators, CPA and Accounting Firms, Fund and Financial Auditors, Fund Administrators, Miners, Protocols, individuals, and any other organisations interacting with crypto-assets. Lukka is a global company, headquartered in Naples, Florida, USA, with offices in New York, Singapore, Switzerland, and team members located around the world. As of this submission Lukka has approximately 175 full-time employees.

Lukka has the most comprehensive crypto-asset and exchange coverage in the industry. This depth of coverage ensures there are no information gaps, in assets or marketplaces, that could limit regulatory efforts. Lukka Reference Data is an extensive set of security masters from exchanges and other sources across the crypto ecosystem that standardises crypto-asset

names, tickers, trading pairs, spot and derivatives, unique and custom assets such as non-fungible tokens (NFTs), and more.

To understand and execute protocols based on large data sets like this requires infrastructure, education, constant maintenance, and years of experience. Lukka's standardised and enriched Reference Data covers 450,000+ assets, 165,000+ derivatives, 120,000+ trading pairs, and 1,000+ ecosystem entities such as exchanges, Over the Counter (OTC) desks, and pricing sources including decentralised exchanges (DEX) & decentralised finance (DeFi). Lukka Reference Data is integrated into Lukka Enterprise Data Management, so this process is fully automated for tax authorities and regulators.

Lukka's core offerings include:

- Enterprise Data Management Suite: a comprehensive set of web-based software and data capabilities built to simplify crypto middle and back-office financial data management, gain/loss calculations, and custom reporting.
- Enterprise Data Products: institutional-quality crypto asset and pricing data solutions to support the unique needs of organisations adopting blockchain data into their core functions.
- The Lukka Digital Asset Classification Standard (LDACS): a detailed and comprehensive structure consisting of a five-tier hierarchical taxonomy to improve transparency and efficiency in assessing and analysing over 90,000 crypto assets, currently.

Our products undergo annual AICPA SOC audits to ensure the highest technology risk standards, and are built with institutional standards that focus on data quality, accuracy & completeness, and managing technology risk. As a result, Lukka is trusted worldwide by top crypto industry participants, including traditional financial institutions, trading platforms, governments, accounting and tax firms, and leading investors.

Lukka has proudly supported the United States Internal Revenue Service (IRS) since 2017, where our experts have assisted IRS-Criminal Investigation (CI) by performing analysis of virtual currency data sets to reconstruct taxable income calculations. In one instance, this work involved analysing ~30,000 trades and transfers representing ~65 different crypto-assets across 3 source exchanges. Lukka interacted with IRS exam and counsel teams for purposes of ingesting the data, receiving direction on technical tax issues raised (e.g., airdrops), addressing data gaps, and communicating the results.

Support for Australia's Token Mapping initiative

In its Consultation, the Treasury describes numerous aspects of such a project that we agree are important to consider in such an endeavour:

- An absence of existing consensus on terminology and classification;

- The usefulness of a framework, such as the token, token system, function framework; and
- A focus on key economic functions of each crypto asset.

As noted above, Lukka has been a service provider bringing consistency and rigour to the crypto ecosystem since 2014. Some of the intricacies of this ecosystem bring challenges to participants and regulators alike. For example:

- There are hundreds of unsupervised crypto exchanges around the world.
- Exchanges operate 24/7 without standardised ticker symbols, file formats, or valuation processes.
- Crypto transactions occur in extreme fractional quantities and may be traded for one another without fiat currency.

The result is unique data characteristics that are not compatible with traditional fintech software and infrastructure. As a result of our extensive experience in the arena of crypto asset standardisation, normalisation, and mapping, we strongly support the token mapping initiative laid out in the Consultation.

Responses to select consultation questions

Consultation Question 2 - Potential safeguards for consumers and investors

Safeguards for consumers and investors are necessary for sustainable growth and long-term investment. At Lukka, we are committed to the security, operability, and integrity of our solutions and our customers' data. We believe that there is a healthy intersection between the essential pillars of decentralisation and autonomy in the crypto ecosystem, and the protection of consumers through traditional risk management practices like audits, disclosures, and regulatory compliance. Lukka provides solutions to both government and institutional customers so they are able to find this equilibrium.

Lukka has over eight years of experience servicing the largest crypto businesses in the world, hundreds of fund administrators, traditional finance institutions, regulators, and numerous other crypto ecosystem participants. The company was the first in the crypto industry to receive both SOC 1 Type II and SOC 2 Type II attestations, and continues these annually. These attestations result from thorough examinations and testing of policies, procedures, and controls, allowing its customers and auditors to have confidence that rigorous crypto transactional data has been coalesced into auditable information for tax, accounting, and regulatory reporting purposes. We recommend similar types of audits, as appropriate in each local jurisdiction as an important safeguard.

Consultation Question 3 - Protections against scams

Instituting regulations that require disclosures and risks are essential for protecting consumers and identifying scams. While disclosures give consumers up-front protection, external audits and crypto asset classification and monitoring tools enable a long-term compliance mindset within the crypto ecosystem. Institutional-quality data and software that provides crypto market participants with transparent and audit-ready valuations and reconciliations across hundreds of blockchains, thousands of tokens, and millions of transactions can protect against scams. This functionality serves companies and governments with equal ease.

Data management tools can further assist institutions by delivering clarity to a multitude of complex crypto transactions, using tools like asset mapping, standardisation, and data ingestion and extraction. A service provider that can ingest data via API or various file formats, automate analysis of large volumes of crypto data, and decrease the need for manual reviews of transactions, can then provide much-needed comprehensive quantitative analysis of crypto activity.

Consultation Question 5 - A bespoke crypto asset taxonomy

Based on our experience meeting the needs of global crypto market participants and regulators, we take the position that a robust crypto asset taxonomy is of maximum regulatory value. In the absence of a global consensus on such a taxonomy, it is worthwhile for regulators and policymakers to work together with the industry on a methodology that can be adapted to meet their national needs and concerns.

The advantages and use cases for the development and deployment of an appropriate taxonomy are numerous; including:

- To aid in the understanding of the traits and volume of specific crypto assets that are active in the local ecosystem;
- To support the monitoring of the risks and benefits associated with the crypto assets in the local environment, including any systemic financial and consumer protection risks as needed; and
- To assist in the mapping of crypto assets to traditional assets (financial or otherwise).

In general, after many years of working to organise, standardise, and normalise crypto transactions and traits, Lukka sees that the benefits of a well-designed taxonomy are greater than any related costs.

An existing token mapping system – the Lukka Digital Asset Classification System

Key to the advantages presented above is combining a well-designed taxonomy and mapping approach, with appropriate expertise that spans both crypto and traditional assets. LDACS is a

detailed and comprehensive structure consisting of a five-tier hierarchical taxonomy with the purpose to improve transparency and efficiency in assessing and analysing digital assets. LDACS is designed to fulfil the global digital asset community's need for a complete and globally accepted taxonomy to classify digital assets.

Guidelines for Classification:

- Classification by Intended Use & Structure

The classification of a digital asset is not always straightforward or immediately identifiable. In order to determine the intended use and structure of an asset, Lukka examines existing documentation and communications from the asset issuer that detail the intended use case(s) of the asset. These details are then compared holistically to Lukka's sector definitions. Following this comparison, any sector classifications that are deemed applicable are assigned to the asset.

- Source of information used for LDACS Classification

The primary source of information used for classification will be the official communication by the issuer of the asset. Such communication includes (but does not have to be limited to): the whitepaper, one-pager, official website, blog, or social media accounts associated with the asset and its issuer. Lukka will look at all forms of official communication and documentation available that describe the use case or structure of the asset and ultimately take a holistic view in its classification.

In instances where there appears to be no formal communication or documentation, but there is sufficient information from sources Lukka deems as reputable and appropriate to use, Lukka will utilise that information during the classification process on a best efforts basis.

- Selection of the Primary Classification

In instances where there is only one intended use case for an asset (e.g. Bitcoin), that classification is selected as the Primary Classification. However, digital assets can facilitate more than one use case (eg, Wault Finance). Thus, for a given asset, it is possible to have multiple LDACS Classifications. In these more complex instances, Lukka will provide multiple classifications for the asset, but flag only one as the Primary Classification. The Primary Classification flag will ultimately be decided by what appears to be the most prevalent intended use case through a comprehensive examination of all available information as described in the previous section. Where multiple classifications exist, Lukka does not provide a hierarchy of use cases outside of a boolean classification.

- Ecosystem Support Assets Classification

In the case of assets that perform a special function in a given cryptocurrency ecosystem but do not perform the primary function of the assets within that ecosystem, such as Governance Tokens, the Primary Classification of those assets will reflect the primary use case of the asset's ecosystem rather than the primary use case of the asset itself. For example, Ampleforth Governance Token is the Governance Token of the algorithmic stablecoin Ampleforth. Ampleforth Governance Token is an essential part of the Ampleforth ecosystem, but has no other use case outside of that ecosystem and is not itself a stablecoin. Thus, its Primary Classification designation would be Algorithmic Stablecoin.

In closing

Lukka is committed to supporting regulators, standard-setters, and policy makers as they seek to both better understand the crypto ecosystem and design protections for their respective citizens and financial markets. We have unique insights across the various crypto assets and markets, and across many different types of market participants who are our customers. So, we would close by offering to participate in any ongoing discussions, and to provide any educational materials or research tools, as needed.

Thank you for your time and consideration of our feedback. We would be pleased to discuss any of these comments at your convenience.