



BRADSHAW KNOX

Guard Your Digital Legacy

TreasurySubmission

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Submission

Overview

As an active service provider in the digital asset space since 2017, specifically providing education services and advice on cyber security to individuals and companies, I have been in the privileged position to watch this exciting industry self-organise and self-regulate at the technology layer in a decentralised fashion. Unfortunately, over this time I have also witnessed many unscrupulous operators' de-fraud market participants. It is important to recognise the distinction between the decentralised technology aka Blockchain, and the operators of the traditional centralised regulated companies. It is the latter not the former that we need to be concerned with when applying any proposed guidelines or regulations.

The danger of applying a blanket approach with token mapping, is that the nuance between the technology and the operators of centralised exchanges could lead to the application of rules which hinder the growth of this sector as opposed to achieving the desired result of protecting consumers.

Acting before having a clear understanding of this fast-evolving space could negatively impact the ongoing role Australia can have as leaders of this space. As a nation we are at a unique point in time which could define the future of many generations. If we act too impulsively and try to shoe-horn these assets into an existing framework, we run the risk of stifling innovation of the technology and the industry that will form around this technology over the coming decades. Already I am witnessing the growth of services offered to this space, which over time will provide many employment opportunities for the youth of Australia. We need to proceed with a level-headed approach which achieves the desired goal of protecting consumers and does not just lead to regulation for the sake of regulation.

Q1) What do you think the role of Government should be in the regulation of the crypto ecosystem?

It is my opinion that more regulation is not the answer to fostering these emerging technologies. The very nature of decentralised digital assets is such that it is self-governing by design. It offers unprecedented levels of transparency and accountability into the base layer design.

Any attempt to impose regulation on these cross-border technologies which do not reside in any jurisdiction and are a new paradigm with regards to "ownership" without allowing more time for the space to mature could prove to be futile. As a country we need to foster this next technical revolution and become leaders in the space. Much like the fledgling internet, it has taken many decades to see the impact such technologies can have on mankind.

This space needs to be given the chance to blossom and grow as it may have transformative outcomes in terms of social services and improving the efficiency and trust of many of the systems that currently require regulation due to the opaqueness of their operation.

Q2) What are your views on potential safeguards for consumers and investors?

Unfortunately, additional regulation often does not help to alleviate the losses suffered by consumers and investors from currently regulated markets. Essentially, we end up with reams of wordy disclosures drafted with heavy legal jargon which ultimately divorces the issuers of these documents of any responsibility. To be honest these disclosures are rarely read by the investor much less understood by the



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investor. This has led to very inefficient markets with many middlemen inserted in to the process which only creates more issues with trust and transparency, not less.

The key to safeguarding consumers and investors is education. Dollar for dollar any funding resources spent on education as opposed to regulation would be far more effective in protecting consumers. If the government is honestly looking to protect consumers and investors, the approach should be on education and engaging with actors in the industry that can explain how to safely use these emerging technologies.

Q3) Scams can be difficult for some consumers to identify.

- a) Are there solutions (e.g. disclosure, code auditing or other requirements) that could be applied to safeguard consumers that choose to use crypto assets?**
- b) What policy or regulatory levers could be used to ensure crypto token exchanges do not offer scam tokens or more broadly, prevent consumers from being exposed to scams involving crypto assets?**

In terms of crypto exchanges, given recent events it is understandable that this is an area of concern we all can share. The important thing to note is this was not the failing of the technology in any way, but rather a case of old fashion fraud by unscrupulous individuals. Regulation of any specific technology would never have prevented this type of fraud, which is not limited to this industry and is safe guarded by current laws. With that clarification in mind, I believe:

- All exchange operators should be required to segregate any user held funds and these should not be co-mingled with that of the exchange operators. Proof of Reserves should be transparent by any exchange operators so there is transparency that any user held funds are safe.
- Scam is an over-used term and is often a subjective point of view by an individual or group. However, exchange operators could have a risk matrix for any listed coins or tokens which shows at a glance the following dynamics of a listing:
 - Does the project have any administrative keys held by a company or individual?
 - If administrative keys are present, what do they allow the holder to do?
 - Has the listing been audited? If so a link to the audit should be provided.
 - Provide links to any white papers and code sources.
 - Are the developers of the code anonymous or disclosed?
 - Does the exchange operator have an interest in the listing? If so what is the nature of this interest.
- Any product the exchange operator offers in the way of staking or similar, the exchange operator must clearly demonstrate how they are using the customer staked tokens.
- Once again, education is the ultimate key to protecting consumers and investors. Many of the exchange operators are starting to provide this information, however it is often biased to their offerings or interests.

If the Government is genuine about wanting to foster this innovative technology and industry the vast amount of funding resources should be put into quality training and education of how to use this technology as it was intended, i.e. without exchange operators in the middle. This will have the biggest impact in terms of safeguarding consumers.

