

Submission for BetaCarbon Pty Ltd ABN - 26 649 985 759

BetaCarbon was incorporated in May 2021 and operates out of NSW. It holds a wholesale AFSL, issues crypto and is an authorised digital currency exchange with AUSTRAC.

BetaCarbon is a company that aims to increase demand for quality carbon credits to accelerate the transition to a net-zero economy. Carbon credits incentivise society to take responsibility for negative climate impacts by placing a price on each tonne of CO₂ emissions. BetaCarbon among its suite of offerings developed a token, BCAU, that represents 1kg of carbon removed from the atmosphere by verified and monitored carbon projects. These tokens can be bought, held, and traded as an investment. BetaCarbon was the first provider to tokenise Australian carbon credits using blockchain technology.

BetaCarbon creates digital tokens, called BCAU, notionally backed by Australian Carbon Credit Units (ACCUs), issued by the Clean Energy Regulator. BCAU is built using the ERC-20 protocol and operates on the Ethereum blockchain with security measures in place. Tokens are minted by BetaCarbon as required, with a strong governance and control framework in place. BCAU tokens are notionally backed by ACCUs held by BetaCarbon's custodian, and regularly assured by its AFSL auditor LNP Audit & Assurance and posted on the BetaCarbon website. BCAU tokens are crypto-assets and not regulated financial products as the token is notionally backed. BetaCarbon has an Australian Financial Services License to allow it to operate in relation to other financial products it offers in the carbon retirement sale and derivative space to wholesale customers. The token holder is responsible for tax liabilities and has no rights to any ACCUs held by BetaCarbon's Custodian. The token holder agreement outlines risks and limitations. All transactions on the Ethereum blockchain are final and irreversible.

Fundamentally BetaCarbon has always believed that well-constructed policy would be beneficial for all participants in the digital asset ecosystem. BetaCarbon was born out of the fact that underlying legacy policy frameworks were no longer fit for purpose. This was particularly the case for Australian Carbon Credit Units which have unique and rather unworkable policy frameworks. These include huge barriers to entry, extremely poor liquidity, transparency and operate uniquely as an income asset owing to the Div. 420D Income Tax Assessment Act 1997.

BetaCarbon's responses are intended to be succinct and practical as they are in a unique position of operating under a wholesale AFSL with products

that are considered financial products and products that are not considered financial products for which the AFSL is not required.

In BetaCarbon's assessment, the regulatory landscape had effectively snookered itself, which meant that the ACCU asset class could not serve the fundamental purpose for which it was conceived. In short, if the legacy frameworks were properly conceived, there would have been no need for the BCAU token. This demonstrates the use case theory of blockchain.

Responses:

Consultation questions

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

BC - The role of the government should be to create frameworks that allow Australia to innovate and become a global digital asset hub. The risk is that over and under regulation will see the best of Australian talent go offshore and leave Australia languishing in the medium term. Consumers will find a way to participate regardless of the regulation. There should be pathway to perfection that will require periodic pivots.

Q5c) In the absence of a bespoke taxonomy, what are your views on how to provide regulatory certainty to individuals and businesses using crypto networks and crypto assets in a non-financial manner?

BC - Regulatory certainty can be created by ensuring that entities meet minimum organisational compliance requirements such as more specific crypto licencing arrangements that scale with the growth of the companies and market. The process of applying for an AFSL specific to each use case will be impossible to administer as the current waiting time for a standard AFSL is uncommercially long and expensive.

Q6) *Some intermediated crypto assets are 'backed' by existing items, goods, or assets. These crypto assets can be broadly described as 'wrapped' real world assets.*

a) *Are reforms necessary to ensure a wrapped real-world asset gets the same regulatory treatment as that of the asset backing it? Why? What reforms are needed?*

BC - Where wrapped assets are concerned, the trusted processes that exist within financial markets frameworks should be employed, including periodic arms length assurance and reliable custodial frameworks, that scale with business complexity & materiality.

b) *Are reforms necessary to ensure issuers of wrapped real-world assets can meet their obligations to redeem the relevant crypto tokens for the underlying good, product, or asset?*

BC - This question is dependant on the promises made contractually in the Token Holders agreement, and on the definition of a "wrapped asset". Where it is clear that a token gives owners the right to the underlying asset, there should be safeguards put in place upon materiality thresholds being met.

Q7) *It can be difficult to identify the arrangements that constitute an Intermediated token system.*

a) *Should crypto asset service providers be required to ensure their users are able to access information that allows them to identify arrangements underpinning crypto tokens? How might this be achieved?*

BC - Minimum transparency arrangements should be put in place including legal agreements, holding arrangements for the backing assets and periodic assurance at arms length.

b) *What are some other initiatives that crypto asset service providers could take to promote good consumer outcomes?*

BC - CASPers could be given peak body established guard rails that establish minimum expected levels of due diligence on assets listed on exchanges. This would include background checks of the issuers, etc.

Q11) *Some jurisdictions have implemented regulatory frameworks that address the marketing and promotion of products within the crypto ecosystem (including network tokens and public smart contracts). Would a similar solution be suitable for Australia? If so, how might this be implemented?*

BC - Marketing of products should be balanced and a truthful representation of the facts regardless of who is conducting the messaging. The pump and dump narrative to create FOMO is destructive and should be discouraged via sensible regulation.

Q12) *Smart contracts are commonly developed as 'free open-source software'. They are often published and republished by entities other than their original authors.*

a) What are the regulatory and policy levers available to encourage the development of smart contracts that comply with existing regulatory frameworks?

Ensuring that the underlying regulatory frameworks are fit for purpose and futureproofed so that contract development investment is not short lived.

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