



30 June 2021

R3's Recommendations to the Senate Select Committee on Australia as a Technology and Financial Centre

Executive Summary

R3 welcomes the opportunity to contribute to the Australian Senate's review of the country's cryptocurrency and digital asset regulations. This is an important topic, and we support the overall approach that the Senate is taking, which we believe to be balanced and proportionate. Regulators around the world are grappling with the appropriate classification and treatment of cryptocurrencies and digital assets. It is critical that as part of that exploration, all regulators examine the underlying technology and the relationship between the technology and the asset. We applaud the Senate for its contribution to this global effort, and for issuing this consultation.

Cryptocurrencies are a type of digital asset. In this response, our references to digital assets are meant to include cryptocurrencies, except where noted otherwise. Below we outline R3's perspective on the regulatory framework for digital assets. We would be delighted to discuss our perspective or any of the points raised in the consultation and our response.

Introducing R3

R3 is an enterprise software firm that is pioneering digital industry transformation. With our foundation in blockchain technologies, we deliver applications and solutions for all types of businesses in all industries. R3's global team of over 400 professionals in 14 countries is supported by more than 2,000 technology, financial, and legal experts drawn from its global ecosystem.

An integral part of R3's network are governments and regulators, who are key to our approach to innovation. We engage with the public sector at all levels, having met with well over 200 globally to date. Such engagement has allowed for the incorporation of key regulatory requirements into the design of Corda and facilitated public sector work on Corda as well.

R3 has a strong presence in Australia, having worked closely with key regulators such as the Reserve Bank of Australia (RBA), Australian Securities and Investments Commission (ASIC) and Australian Transaction Reports and Analysis Centre (AUSTRAC). R3 also provides the blockchain technology to power the Australian FinTech GROW's superannuation platform.

Further information on R3's work, portfolio and its partners can be found on our website: <https://www.r3.com/>.



R3's Corda Platform

Our blockchain platform, Corda, is transforming entire industries by digitalising the processes and systems that firms rely on to connect and transact with one another. Our ecosystem is the largest in the enterprise blockchain world with more than 350 institutions deploying and building on Corda and Corda Enterprise.

The fundamental design decision of Corda, which was made at the very beginning, is that Corda allows for limited data sharing, which means information is only shared with those who have a need and a right to see it. That data sharing model ensures privacy and also facilitates compliant transactions between regulated institutions that are subject to reporting and data privacy regulations. We have been developing this platform significantly over the years and went to market with our first enterprise version in July 2018. As an enterprise-grade blockchain platform, Corda removes costly friction in business transactions by enabling institutions to transact directly using smart contracts, while ensuring the highest levels of privacy and security. This provides value to the users and their customers, while also benefitting markets at large.

Corda was originally built by the financial services industry, for the financial services industry. It was developed to leverage the power of distributed ledger technology to address specific business challenges in highly regulated markets and is now being applied seamlessly to other sectors including global trade, supply chain, insurance, healthcare and energy.

R3's Conclave Platform

R3's Conclave platform harnesses the promise of confidential computing and Intel SGX technologies, simplifying the process for businesses to develop applications that analyse and process sensitive data from multiple parties — all without compromising on confidentiality.

Conclave is the ideal solution for software vendors, data service providers, exchanges, corporates and other firms looking to solve the data privacy challenge. Unlike existing data processing solutions on the market, Conclave enables customers to securely send data and verify how it is being used while maintaining ownership and control of their data.

R3's Digital Asset Observations

Below we outline our digital asset observations, which highlight some of the key aspects of Corda's design. We believe our approach will help the Senate in understanding not only the technology and the digital assets market, but also how the



market will evolve over time enabling the Senate and concerned government departments to regulate it effectively.

The past couple of years have seen an increased focus on many forms of digital assets that offer the promise of a new, lower friction method of asset and capital formation. Asset backed tokens are one such form that we believe offer immense promise to the financial sector. Such tokens, if developed appropriately and for enterprise usage, could automate or simplify much of the asset origination, issuance, execution, and secondary trading processes that make up much of investment banking today. Completing these transactions with smart contracts also reduces the need for intermediaries, thereby reducing transaction costs. Issuers of securities everywhere see the value in a more efficient, effective connection to those looking to allocate capital, all in a safe, regulated and automated environment.

For R3, the same enterprise-ready focus that led to the design and capabilities of our Corda platform also bring the best innovations to the token world. There are several enterprise token uses on Corda today using the asset-backed token model such as [HQLAX](#) which developed a collateral management solution on Corda for Deutsche Börse's Eurex, and [Tradewind Markets](#) which created an electronic gold trading platform for trading, investment, settlement, and ownership. In order to foster similarly impactful innovation, we are building a robust digital asset ecosystem on Corda by engaging users, collecting capability requirements and supporting partners in developing CorDapps (the applications that sit atop our platform). We work across our connected network of digital asset issuers, market infrastructure providers, digital asset purchasers, and regulators to advance our goal of seeing digital trust realized in financial markets.

It is critical that such token issuance and the lifecycle of the token be conducted in a secure and regulated manner. That means open platforms with well-defined governance, settlement finality, and strong identity. Each is detailed below:

- Well-defined governance enables participants to ensure liabilities are assigned, that they are dealing with appropriate actors, and that they can identify, manage and mitigate risks.
- Settlement finality provides the holders of digital assets certainty that their transactions will not be reversed, and, therefore, can properly value and count those assets. Settlement finality also enables the real-world issuer to demonstrate compliance with associated finality regulations as well as reduce their own risk stemming from blockchain 'reorganizations' that can occur on other platforms (i.e. on platforms that use probabilistic settlement such as proof of work or proof of stake platforms that use the "longest chain" rule).
- Known identity enables firms to know who is holding or has held tokens they have issued. It also allows those transacting in the token to know with certainty



with whom they are transacting. This is particularly important for compliance with anti-money laundering regulations.

As an additional note, cybersecurity is of utmost importance in any blockchain solution that is meant to be safe and reliable and, therefore, a prerequisite for use particularly in the enterprise context. Unfortunately, we have seen many platforms fall short on cybersecurity to date. Strong cybersecurity and strong security measures are a core focus of Corda and have been since the beginning. Corda transactions are secured using public key cryptography: the public key is used to confirm the identity of the entity participating in the Corda Network and the private key allows transactions to be signed between parties on a need-to-know basis.

Regulation of Cryptocurrencies and Digital Assets in Singapore

R3 has established relationships with over 200 key regulators globally since the establishment of the company in 2015. We were pleased to see the Committee's interest in other jurisdictions' regulatory approaches and would like to offer our expertise of the regulatory landscape for digital assets in Singapore below.

In recent years, Singapore has been observed to emerge as a regional hub for blockchain technology, and as a result, digital assets. The Monetary Authority of Singapore (MAS), Singapore's financial regulator, has been taking steps to actively regulate digital assets in the country. Singapore offers a balanced regulatory and legal environment for digital assets, but within the digital asset realm, the MAS monitors the cryptocurrency ecosystem for risks associated with cryptocurrency activities, such as money laundering and terrorism financing, while also ensuring that it does not stifle innovation.

Cryptocurrencies are legal in Singapore. However, MAS regularly issues warnings to investors and the public of the risks of investing in cryptocurrencies and associated products. Singapore has also taken a proactive step toward experimenting with blockchain technology for development of a central bank digital currency (CBDC) and digital payments via [Project Ubin](#) and [Project Dunbar](#) – the upcoming cross-border wholesale CBDC project.

Singapore also enacted a Payment Services Act (PSA) to regulate traditional and digital payment systems and payment service providers. The intention behind the PSA is to streamline payment services under a single piece of legislation and calibrate regulations according to the risks such activities pose by adopting a modular regulatory regime. The PSA provides a framework to obtain a license to operate a cryptocurrency business in Singapore and outlines money laundering compliances to be met by cryptocurrency operators. R3 supports the same risk, same regulation approach of the PSA as striking an effective balance between consumer protection and the encouragement of innovation.



Working with You

Simplicity is key in designing frameworks. Layering additional regulations on top of already robust and effective frameworks would only complicate the industry and inhibit innovation with no resulting upside.

With digital assets, it is important to emphasise that the regulatory regime should not create a scenario in which the same instrument in digital form is subject to heightened regulation from when it is in traditional form. Also, it is important to ensure that there is no regulatory confusion created by the development of a second and potentially overlapping regime for some assets.

Therefore, we propose that the Australian government aligns digital asset regulations with requirements imposed on the same asset in its traditional form, with the principle of 'same risk, same activity, same treatment'.

R3 fully supports the Australian government and its commitment to improving the digital asset scene in the country. We have engaged extensively with various regulators globally and would welcome the opportunity to do so directly with you in the future.