

## Submission under the consultation process for Initial Coin Offerings

John M Hoffmann B. Com

I applaud the initiative of government in seeking to foster growth of blockchain technology within the IT sector, particularly in FinTech, as I see a significant opportunity in this space which is crying out to be grasped with both hands before other economies leave only the crumbs for Australian participants.

Australia has demonstrated its skills and capacity for innovation in the IT sector over many years and the sector should be supported.

For the past 10 years I have been consulting to an IT company which unfortunately has found it necessary to migrate its domicile to USA in order to tap into equity capital markets for its global expansion.

I have been a keen follower of crypto and a small investor in ICOs. The process of investing in a business through an ICO is very simple and has the particular advantage for the business of being able to tap into a large pool of investors of any magnitude.

In the 2000s I was honorary Secretary/Executive Officer of Enterprise Java Victoria Inc. This was an industry driven initiative by a group of IT companies to foster collaboration and upskilling for web development using the latest technology. This initiative was applauded by the Victorian government but little in the way of assistance or practical benefit was offered.

To date, ICOs have had an unfortunate experience – hype and enthusiasm has turned negative with tokens at massive discounts when listed on exchanges - after some encouraging premiums in the very early stages.

There can be an over-emphasis on the importance of ICOs when considering ways to foster the emerging FinTech development industry. Corporates need to be encouraged to consider ways in which their processes can be assisted by blockchain technologies. Government sponsored seminars emphasizing the benefits of blockchain e.g. distributed ledgers/trustless/immutable, could encourage corporates to set up their own committee/working party/think tank to consider ways in which blockchain technology could be applied in their organisations. Companies should be encouraged to take risks, and work for the development industry would automatically flow if some financial assistance/relief could be offered (See proposal attached).

### **CONSULTATION QUESTIONS**

#### **Definitions and Token Categories**

1.1 ICOs involve tokens so need to define categories of tokens – crypto currencies, privacy tokens, financial services tokens, etc. There is a need for encouraging and stimulating all categories.

## Drivers of the ICO Market

2.1 Investors in an ICO need their tokens listed on exchanges promptly. If funds are locked up for extended periods investors will be disinclined to participate in the ICO.

2.2 Restored confidence in the minds of investors – assisted by

Recognition by government that this cannot be ignored/left to its own devices

Government coming out in support of the blockchain development industry

Announcements by government (to the world) that Australia plans to make this a major industry

Clarity of tax treatment

## Opportunities and Risks

3.1 By raising the necessary capital to undertake projects which provide jobs and hopefully profits

3.2 ICOs cast a much wider net and therefore more likely to raise the necessary funds. Businesses set their own minimum contribution levels. Attractive as a simple on-line process to invest.

3.3 Consumers - Crypto markets, through exchanges, offer perfect world-wide competition and 24/7 trading. Industry - Increased ability to raise funds will allow businesses to remain in Australia and Australian owned for longer. Economy – Jobs, an alternative to dying industries, government revenues.

3.4 ICOs are only part of the answer. Announcements by government that the industry will be prioritized for growth is a good start but needs follow up action. All tertiary institutions should be encouraged to offer blockchain courses. Students will flock to them if they know that this is an industry where the jobs will be available. Government might need to fund crash courses for lecturers to skill them up to be able to in turn, deliver courses to students. Specific funding to the universities earmarked for this purpose is required. It's no longer a case of "if" but "when" blockchain will become ubiquitous.

3.5 Development risks will be borne by the private sector. Safeguards need to be in place to guard against unethical behavior but existing approval procedures are probably adequate. There is a danger that over-regulation will be counter-productive. Social media within the crypto space is very well developed and dishonest operators will soon be exposed.

## Regulatory Frameworks in Australia

4.1 No submission

4.2 No submission

4.3 No submission

4.4 A code of conduct which industry participants could sign up to would be a positive, but needs to be kept fairly general and not be perceived as more crippling regulations and need for approvals. Better to clamp down hard on those doing the wrong thing by providing a complaints desk to classify and report on problems possibly also “naming and shaming” offenders.

4.5 See comments elsewhere and proposal attached.

## **Tax Treatment of ICOs**

5.1 No submission

5.2 This whole area including the broader tax regime will need a radical review. The immediacy of investing in/trading in/spending (including buying that cup of coffee) crypto and associated derivatives will lead to record-keeping becoming an impossible task. At this stage crypto is volatile, and even investors (as opposed to active traders), are having to re-balance their portfolios regularly.

5.3 As crypto becomes ubiquitous, recording of transactions and calculation of gains and losses is going to become impossibly difficult. In these circumstances self-assessment is unlikely to produce the desired result.

A proposal for stimulating the FinTech industry is attached.

[john.hoffmann@bigpond.com](mailto:john.hoffmann@bigpond.com)

0419 311 557

February 2019