On regulation;

Cryptocurrencies have gained traction amongst early adopters to safeguard against third party interference in finances and to empower anyone to "be their own bank". Understandably, as a sovereign nation-state, Australia has a responsibility for its borders, its domestic policies, and, how finance is conducted within Australia.

Cryptocurrency creates a challenge in that it cannot be controlled by any third party once it is the personal custody of a user. These types of wallets cannot be outlawed as they are simply 24-word phrases and can just be committed to memory. It is therefore vital to undertake a regulatory approach that will strike a similar balance to that which allowed the existence of services such as Netflix, as opposed to the mass piracy of movies that was occurring in the mid to late 2000's.

Cryptocurrency is not in a constant state. There are many innovative technologies that have already been developed that the Gov of Aus undoubtably does not fully understand, and many more in development that any current regulation will find difficult to capture.

Of particular interest to the Treasury is the rise of privacy-focused cryptocurrency, where all transactions are protected by Intel SGX, or the impending ZK-proof cryptocurrencies which will make most transactions observable, but not attributable to any account. For regulation to work, the majority of people would need to voluntarily produce tax information, which means it has to be simple and not unrealistic.

In my personal experience, here are some points the Treasury and ATO may want to consider:

-Proof of Stake cryptocurrency staking rewards currently get taxed as income. There are a few issues:

> -If the staking rewards are converted to FIAT, this invokes a cost at exchanges.
>
> -Staking rewards come from moving value from all of the coins in, and moving it to those that are staked. The reduction in price due to inflation is never accounted for.
>
> -Staking rewards can be auto-compounded, and therefore no transaction ever occurs and therefore no taxable event
>
> -If staking rewards are paid out in another cryptocurrency (this will happen soon) that is private, there is no way of monitoring this.

-Having each swap as a taxable CGT event makes it extremely hard to comply with ATO guidance. Just as there is no tax for swapping my potatoes for your apples, there should not be a tax for trading. I recommend taxing entry and exit from FIAT (however, this will be circumvented through the direct purchase of goods, possibly in private cryptocurrencies).

-KYC becomes difficult. Even if money is placed on an exchange with KYC, and then moved into self-custody wallet, that can be monitored. But if anyone wanted to move their funds to another location through a privacy-preserving cryptocurrency, that KYC becomes useless. I recommend keeping KYC in force for on and off ramps from Crypto to Fiat.

-If regulation targets the creators of cryptocurrencies or dApps, that could be doomed to fail also – how is it enforced? Do you target the people who write code, the people who run validators or the owners of the physical location where they are run? How are these regulations enforced in jurisdictions where their use is legal? I recommend not regulating code, dApps or the infrastructure behind cryptocurrencies.

I do not have the answers to crypto regulation; however I do understand that they will have to be lenient and easy to implement in order to increase the amount of people who voluntarily follow them. If regulation becomes over-bearing, a vast amount of wealth will simply move off-shore, as we are seeing in other countries already.

In my opinion, trying to regulate cryptocurrency is like trying to regulate the internet, the spread of knowledge via the internet, or the cryptographic principles behind privacy on the internet – it's better to have the aim of allowing innovation and being part of the bubble that benefits from the expansion of the industry, than it is to drive it away from Australia.