Submission by

Digital Asset Industry Response Group Aotearoa NZ

to the

Finance and Expenditure Committee

on the

Inquiry into the current and future nature, impact, and risks of cryptocurrencies

August 2021

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1. INTRODUCTION

1. Thank you for the opportunity to submit to the *Parliamentary Inquiry into the Current and Future Nature, Impact, and Risks of Cryptocurrencies.*

2. Cryptocurrencies are part of a large and rapidly growing group of diverse financial and non-financial assets, part of the broader blockchain evolution in data infrastructure. Blockchain enables moving from large monopoly technology companies to community owned infrastructure for all kinds of applications - known collectively as Web3 or as many have called it the third evolution of the internet itself. The sector is still young and new to the public and decision-makers, who are often not familiar with the concepts underlying it.

3. The objective of this briefing is to provide the Committee with

    - an overview of cryptocurrency
    - its place in the financial system
    - the wider potential of blockchain
    - the sector as it stands in New Zealand and its potential
    - the need for regulatory reform and overseas examples
    - facts about some common criticisms of cryptocurrency
    - some recommendations for the future of government policy towards cryptocurrency

4. Cryptocurrency is here, it is being used, helping Kiwi businesses succeed, and is creating jobs. The technology has a range of benefits and opportunities. There are risks but they need to be managed appropriately and any regulation should be proportionate and specific to the actual applications being developed rather than broadly applied to the technology as a whole. We agree there is a role for appropriate safeguards in this space. There is clear international best practice that can help New Zealand respond, and regulatory changes should look to be adaptive (not prescriptive) as this is a technology that is maturing. Many of the benefits will become more pronounced as time passes, while the risks can be appropriately managed.

2. CONTENTS

3. ABOUT - DIGITAL ASSET INDUSTRY RESPONSE GROUP AOTEAROA NZ

1. The Digital Asset Industry Response Group was set up by industry leaders Centrality, Easy Crypto and Techemy in order to respond to the Cryptocurrency Inquiry by Parliament's Finance and Expenditure Committee. The broader group comprises of globally recognised pioneers, entrepreneurs, advisors and professional service providers across all facets of the cryptocurrency and blockchain industry. This submission is proudly supported by BlockchainNZ, a member of the New Zealand Tech Alliance.

4. CRYPTOCURRENCY BASICS

1. Cryptocurrencies are a type of digital asset - assets and mediums of exchange that exist entirely digitally.

2. In contrast to a currency created and authenticated by government authority or by a corporation or a bank through a centralised system, such as a fiat currency or corporate loyalty currencies, a cryptocurrency is issued following a mathematical schedule built into code and authenticated by networks of computers that track every transaction of the currency through a blockchain (a series of 'blocks' of data recording transactions within a certain period of time) to reach a shared agreement on the contents of each block and therefore the state of the ledger.

3. There are many types of technology used to achieve this shared view of the truth, commonly known as "consensus" In the case of Bitcoin and other "proof of work" type networks validation of transactions added to these blocks requires solving complicated algorithms, which takes processing power by computers. The purpose of cryptocurrencies in this network is to incentivise people to operate the computers and to play by the commonly agreed rules the "protocol", in a sense it's like earning points for playing a game honestly. New currency is earned by 'miners' as a consequence of their using computing power to show they are active in the network "proof of work" in validating the blockchain.

4. Globally, Bitcoin is being seen as "digital gold", with the potential to become even more useful than gold as a store of value. Large institutions and fund managers allocating at least a small portion of their portfolios to Bitcoin for various reasons, including as a hedge against inflation caused by Covid-19 related fiscal and monetary stimulus, and as an investment. More conventional financial products like derivatives and exchange traded funds (ETFs) are being built around the world to provide institutional and everyday investors an indirect economic exposure to Bitcoin. Bitcoin by itself has the potential to create new industries in technology, financial services, insurance, etc, or evolve existing ones. The "digital gold" thesis is predicated on, among other things, the strength of the Bitcoin protocol, which requires computing power for protection. To date, the Bitcoin protocol has never been hacked or compromised and the network has had zero downtime, a remarkable feat for any technology.

5. Another increasingly popular new type of "consensus" is called "Proof of stake". These networks are much less energy-intensive because they use a different type of protocol game

that doesn't rely on complex algorithms and computers doing "work" but rather by people placing some value in the network at risk like a rental bond they get caught by the protocol breaking the rules they can have this at risk portion taken away from them.

6. It is worth noting that cryptocurrencies in general are moving away from energy-intensive proof of work systems, and towards environmentally friendly options such as proof of stake.

7. In both these systems, though, the purpose of the "cryptocurrency" is to incentivise people to collectively run the network , like a shared cloud , so that others can reliably build other applications on top of them. Sometimes those applications are also other kinds of digital assets such as currencies, loyalty points, game items , digital identity and so-on.

8. The blockchain technology underlying cryptocurrencies creates a public but immutable history of transactions, divided into blocks with users each having the option of independently verifying their own identical copy of the chain of blocks. Rather than traditional information management systems that rely on a 'single source of truth', database usually owned by a single entity, blockchains are a distributed database of mutually distrusting computers, each with their own copy of the database, which must reach majority consensus on its contents.

9. Any user could change their own copy of the blockchain, but those edits would be rejected by the vast network of other computers with their own copies. Thus, while cryptocurrency is one of the most commonly known use of blockchain to date, it can be used for any process where non-corruptible record-keeping is needed or any kind of open source application– and do so through a decentralised system.

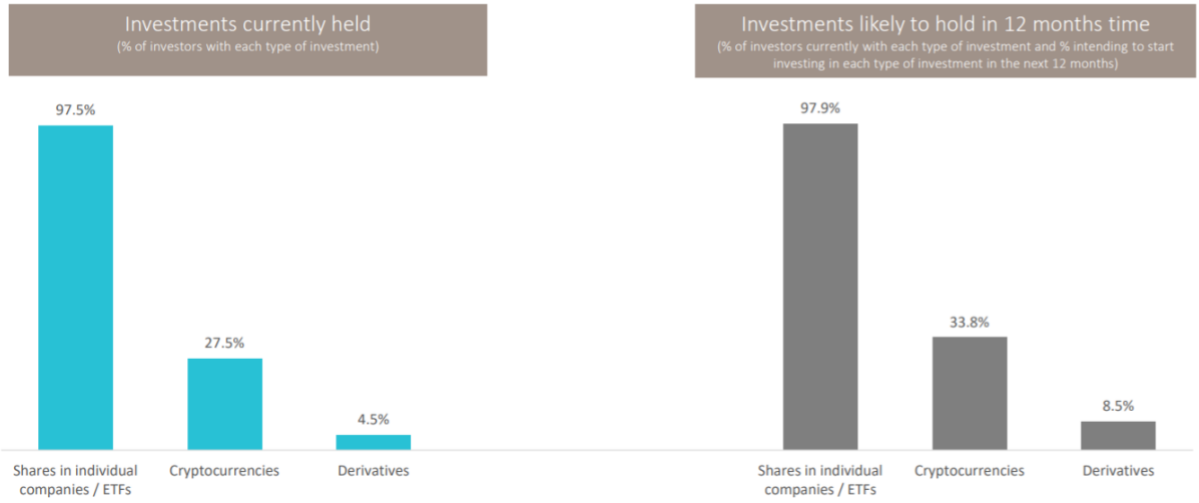
10. The cryptocurrency and blockchain industry is one of the fastest growing sectors in the world, with many of the world's largest financial institutions, technology companies and even nation states are developing new technology in it. Kiwi companies are some of the leading companies in the developing cryptocurrency space. Government should understand how to help grow this success and ensure Kiwi companies continue to thrive and innovate.

5. SOME CRYPTOCURRENCIES ARE A MAINSTREAM FINANCIAL ASSET

1. Some cryptocurrencies are a mainstream financial asset, usually these are classified as commodities. The combined value of cryptocurrencies is over US$2 trillion, making this the fourth most valuable asset in the world – after gold (US$11T), Apple (US$2.5T) and Microsoft ($2.3T). Understandably, many of the world's major finance firms having sizeable investments in cryptocurrencies. That wealth is as real as any of their other investments, and it is very sizeable.

2. Cryptocurrency isn't a fringe idea for computer enthusiasts. It is a serious investment that, as mentioned above, the world's largest finance firms are taking seriously. Collectively, cryptocurrencies represent the fastest-ever growing asset class, with Bitcoin taking just 12 years to reach a US$1 trillion valuation – half the time it took Amazon to reach the same mark.

3. Cryptocurrencies are also popular with New Zealand retail investors. A [recent survey conducted for the Financial Markets Authority] (FMA) has found 28% of investors have some form of cryptocurrency holding and 34% intend to be investing in cryptocurrency by next year.



BLOCKDATA

TOP BANKS INVESTING IN CRYPTO & BLOCKCHAIN COMPANIES (JULY 2021)

PROFILE/COMPANY	HQ	ASSETS UNDER MANAGEMENT	NUMBER OF INVESTMENTS	SIZE OF FUNDING ROUNDS AS A PROXY OF INVESTMENT	COMPANIES INVESTED IN
standard chartered	London, United Kingdom	$789B	6	$380M	Ripple, Cobalt, Dianrong, Metaco, Linklogis
BNY MELLON	New York, United States	$470B	5	$321M	Fireblocks, HQLAx, R3, Fnality International
citibank	New York, United States	$2,260B	14	$279M	BUCK, Chain, SETL, Axoni, Cobalt, Digital Asset, HQLAx, R3, Komgo, Symbiont
UBS	Zürich, Switzerland	$1,126B	5	$266M	Axoni, R3, Fnality International, ConsenSys
BNP PARIBAS	Paris, France	$3,081B	9	$236M	Digital Asset, HQLAx, METRON, R3, TradeIX, Komgo, Token
Morgan Stanley	New York, United States	$1,116B	3	$234M	NYDIG, R3, Securitize
JPMORGAN CHASE & CO.	New York, United States	$3,386B	8	$206M	Axoni, ConsenSys, Digital Asset, R3, HQLAx
Goldman Sachs	New York, United States	$1,163B	8	$204M	Axoni, HQLAx, R3, Coin Metrics, Circle, Blockdaemon, Veem
MUFG	Tokyo, Japan	$3,408B	6	$185M	bitFlyer, Coinbase, R3, Komgo, Fnality International
ING	Amsterdam, Netherlands	$1,147B	6	$170M	HQLAx, R3, Komgo, Fnality International, Vakt
BBVA	Bilbao, Spain	$796B	5	$167M	Covault, Cambridge Blockchain, Everledger, R3, Solarisbank
NOMURA	Tokyo, Japan	$432B	5	$146M	Quantstamp, Komainu, R3, Securitize
BARCLAYS	London, United Kingdom	$1,842B	22	$12M	RealBlocks, Safello, Avenews-GT, Chainalysis, R3, Crowdz, Everledger, Evernym, INVIOU, Wave. Photocert, Post-Quantum, Fnality International, ResonanceX, The Sun Exchange, SendFriend

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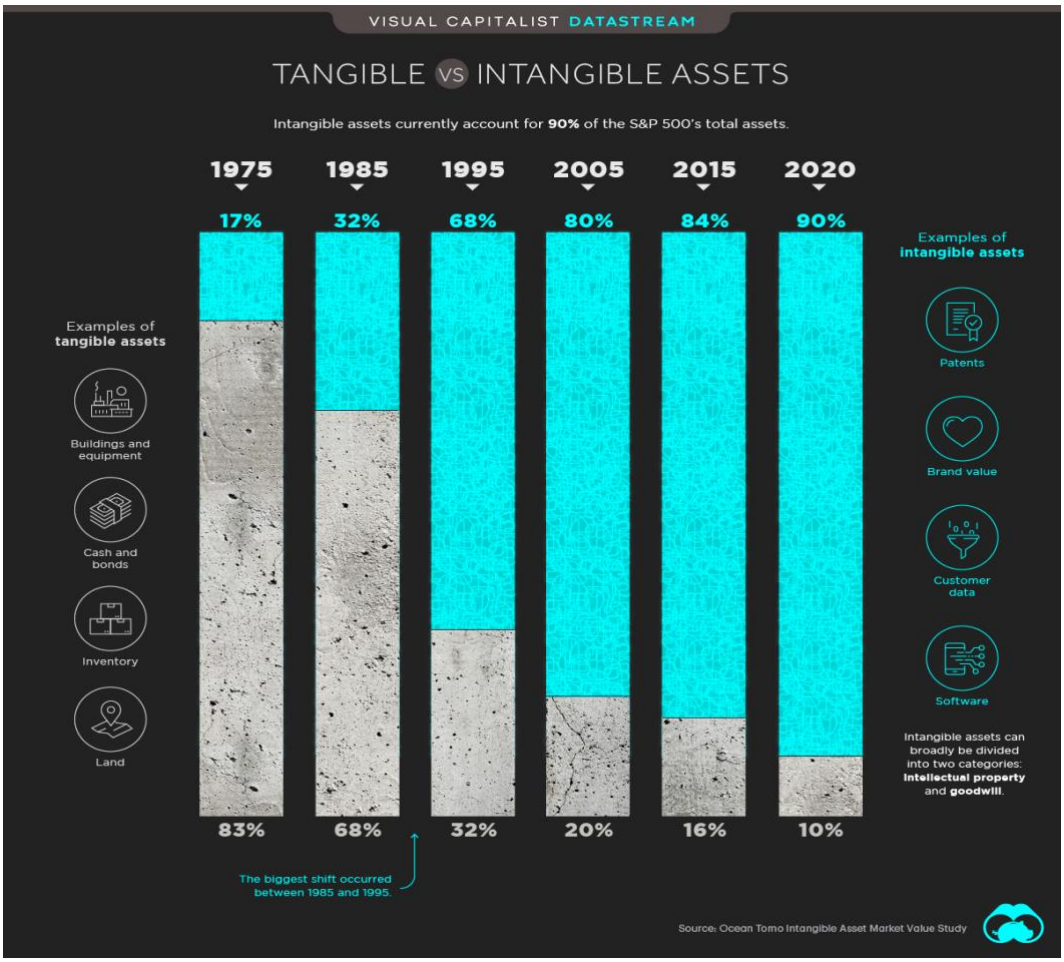
4. Laypeople sometimes have the impression that cryptocurrency isn't "real" because it is purely digital and doesn't represent an interest in an underlying physical asset. The truth is that any store of wealth or medium of wealth transfer only has the value that people collectively assign it. A hundred-dollar bill is just a piece of paper, gold is just a type of shiny rock – their value is in our collective agreement that they have value, which is rooted in their authenticity, limited supply, and fungibility. Cryptocurrencies meet these requirements – their authenticity is proven via the blockchain, their supply is limited by the cryptography that underlies them, and they can be traded for other things of value.

5. Beyond this Intangible assets now represent 90% of the value of the S&P 500's total assets and this is only growing in an increasingly digital economy.



6. BENEFITS OF CRYPTOCURRENCY

1. At its heart, cryptocurrency is about enabling open-source infrastructure for applications which are community-owned, not corporate-owned. Blockchain can be used to immutably record any system of transactions, whether exchanges of cryptocurrency, health records, food distribution chains, changes in asset ownership, or any of myriad other applications that are now usually recorded in data held by the state or large multinational corporations. The currency is an internal payment incentive, like loyalty points, built into the code to encourage people to collectively host infrastructure for recording those transactions.

2. This helps create more open systems and applications, which respect privacy, inclusion and diversity. This new open infrastructure is ideal for developing alternative community-centric

applications to compete against existing technology monopolies. For example, SYLO is a local company building a messenger app with more than 500,000 users already that doesn't rely on harvesting user data. Sylo applications use the network for decentralised, private communication, storage and micro-payments. Instead of centralised cloud server infrastructure, Sylo users create the decentralised Sylo Network together by running software on their own computers in the same way SKYPE originally worked before it was purchased by corporate interests. By running a node, users earn tokens, like loyalty rewards in exchange for their device automatically providing critical services to the network.

3. Cryptocurrency and blockchains are ideal for improving processes and providing transparency to financial applications. Because all the data is available to all the participants in a transaction at the same time, the system can remove errors and improve the speed of settlements. Information is easily independently audited. Visa, Mastercard , Paypal, Square are all investing heavily to leverage the technology to improve payments infrastructure. Local New Zealand company Centrapay is building technology to help small businesses reduce the fees they pay for transactions.

4. The specific problem cryptocurrency solves is to provide open source infrastructure with a built in incentive for the community to maintain it. The "currency" is key to this as it enables the system to operate independent of a company. This enables applications to be built in a way that doesn't force all the participants and their data to ultimately be at the mercy of a single corporation.

5. If the technology reaches its full potential we should see more and more of the value in our society being owned by individuals using these modern global digital co-operatives rather than by global mega corporations. It's our best chance of achieving that.

6. As David Marcus, former president of PayPal and Vice President of Messaging Products at Facebook, and co-creator of Diem, a cryptocurrency project initiated by Facebook, says:

   It has never been more urgent to transform our broken payments infrastructure. The systems we have today are costly, slow, and not interconnected. There are still about 1.7 billion people who are unbanked around the world, and even more who are underserved… — people left behind by the current system and stuck in the cash economy. Globally the state of play for cross-border payments is dramatically bad with an average cost to consumers, who can afford it the least, of 6.5% (more than double the Sustainable Development Goal of 3%) and end-to-end settlement times of three days on average.

   …if money and payments systems were invented today for a digital-only world, what would they look like? They certainly wouldn't look like our current infrastructure. A global, open, interoperable, near real-time, cheap, compliant global protocol for money would be required to enable people, creators, and businesses to move money around seamlessly and to innovate via programmable money. Wallets would need to support NFTs. Real contracts and titles would be replaced by smart contracts.

7. Another fast growing sector of cryptoassets are "non fungible tokens". These are digital certificates for items, collectables, games, virtual reality spaces and other digital media rights. The difference between the traditional approach and ones using the blockchain and cryptoassets is that these items are owned by the end users and transportable between environments making them freely tradable by the users and avoiding "walled garden" or "Vendor Lock In" for end users.

8. Some of the largest venture firms in the world have raised billions of dollars to invest in start-ups building in this space including millions of dollars in leading kiwi firms developing innovative new games and virtual experiences.

9. Mark Zuckerberg has said of the future of Facebook "Our overarching goal across all of these initiatives is to help bring the metaverse to life, and that the metaverse is an "embodied internet," Zuckerberg said, operated by many different players in a decentralised way.

10. Zuckerberg said, the metaverse will bring enormous opportunity to individual creators and artists; to individuals who want to work and own homes far from today's urban centers; and to people who live in places where opportunities for education or recreation are more limited.

11. The head of gaming at YouTube has also said that blockchain based assets and gaming is the future of gaming. The game development sector is already a large and growing industry in New Zealand, one that needs to keep up with where the world is headed and capital is flowing.

12. The pandemic has sped up both innovation in decentralised finance and digital business. We are still at the beginning of the evolution of digital currency, but the potential opportunities for our weightless economy are enormous.

7. STATE OF THE CRYPTOCURRENCY SECTOR IN NEW ZEALAND

1. As mentioned above, cryptocurrency is a popular investment for New Zealand investors but there is also an active industry developing cryptocurrency applications in New Zealand.

2. The cryptocurrency ecosystem in New Zealand supports ideation, structuring proof of concept, development, audit, fundraising and scale up. This ecosystem is supported by global expertise across the professional services sector domiciled here, including MinterEllisonRuddWatts, Bell Gully, Blockchain Labs, Deloitte, PWC, EY and more. There are at least 100+ entities building in this sector including well-known brands. Centrality alone has helped build an ecosystem of more than 20 start-ups, with more than 400 employees and more than $300m of enterprise value.

3. New Zealand companies such as Techemy and Brave New Coin are also involved in financial innovation and enabling financial services organisations around the world to accurately price and track crypto assets.

4. New Zealand is also home to world class crypto asset exchanges and retailers such as Dasset and EasyCrypto (examples of virtual asset service providers) which allow New Zealanders safe and convenient access to this asset class.

5. NZ tertiary providers are developing and have created education programs to underpin the sector. These programs have significant demand. The University of Auckland has recently launched their world leading Master of Information Governance programme.

8. CURRENT REGULATION OF CRYPTOCURRENCY IN NEW ZEALAND

1. New Zealand's current regulatory framework largely reflects the current guidelines of the Financial Action Task Force (FATF), which sets international guidance and standards for regulation of Virtual Asset Service Providers (VASPs).

2. The adaptive (rather than prescriptive) nature of New Zealand's current regulation has resulted in most cryptocurrency activities being captured under existing regulation. The FMA provides advice to investors and recommends any New Zealand cryptocurrency platform New Zealanders use is registered on the Financial Service Providers Register. This has the effect of bringing virtually all VASPs within the FMA's jurisdiction, where even if the underlying cryptocurrencies serviced by a VASP are not financial products under the Financial Markets Conduct Act 2013 (FMC Act), that VASP must still comply with the fair dealing obligations of financial service providers under Part 2 of the FMC Act. If a VASP is servicing cryptocurrencies which are financial products under the FMC Act, then that VASP will be regulated like any other financial service provider, requiring a product disclosure statement (PDS), licence, licensed supervisor, and/or financial reporting obligations, depending on the types of financial products involved.

3. Further, VASPs are universally captured by the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act) as reporting entities. VASPs generally fall under the Department of Internal Affairs' (DIA) jurisdiction although there is scope for them to be within the FMA's remit instead. New Zealand's regulation of VASPs under the AML/CFT Act is largely in line with the FATF's guidance on virtual assets and VASPs, which will be updated later this year. The current regulatory settings for VASPs has the positive effect of ensuring VASPs do not unduly increase the money laundering and terrorism financing risks within New Zealand, disproportionate to the positive impact they bring to New Zealand society.

4. The major issue with current New Zealand regulation is tax settings.

5. IRD has classified cryptocurrency as property akin to gold for tax purposes, which has negative ramifications for New Zealand taxpayers. The IRD position is that generally that cryptocurrencies are property that don't earn a return if simply held by the buyer, therefore these assets were acquired for the intent resale for a profit and are taxable on disposal. This is despite many cryptocurrency having utilities or substantial yield opportunities.

6. For investors and people accepting payment in cryptocurrency, the IRD's position means every trade is a taxable event with any "profit" from variations in the exchange rate between the cryptocurrency and the New Zealand dollar being regarded as taxable income.

7. The application of GST to cryptocurrencies is particularly fraught. The IRD has stated "the supply of a crypto asset could be an exempt financial service [i.e. an exempt supply for GST purposes], subject to 15% GST, or a zero-rated supply to a non-resident" depending on "the specific facts and features of the crypto asset and the residency of the buyer and seller". This uncertainty affects the ability of businesses and individuals to use cryptocurrency and be

confident of complying with the law. The IRD admits "the current GST rules can be difficult to apply or impractical to comply with."

8. It also creates a double taxation problem: purchases of cryptocurrency can be subject to GST, but any subsequent purchase made with the cryptocurrency can also be subject to GST.

9. If cryptocurrency was treated as a currency for GST purposes, this double taxation issue would be removed. We understand that the draft tax bill clarifies that crypto assets will not be subject to GST and that crypto assets will not be financial arrangements, both back dated to 1 January 2009.

10. Recognising and correcting the issues created by GST on cryptocurrency is an excellent first step, however further work needs to be done to understand and appropriately recognise income tax on crypto assets.

11. Compliance costs for cryptocurrency users is expensive due to IRD's tax position. A lack of cryptocurrency tax compliance is likely to be due to a lack of awareness, an uncertainty of the correct tax position, or simply "it's too hard to comply". The current position can make calculating tax liabilities extremely difficult, and requires meticulous record keeping, which is often not contemplated at the outset of any investment activity.

12. Cryptocurrencies are often simply reflections of other existing asset types (property, money, financial products etc) the tax treatment of cryptocurrencies should not be homogenous simply because these assets use a specific type of database technology. Tax should apply in the same way it does to parallel assets to create a level playing field and to provide clarity to enable better compliance with minimal change. In a similar way to how the FMA has aligned guidance to the underlying asset rather than a technology specific approach.

13. Robust and clear tax legislation that puts cryptocurrencies on par with other assets would assist with tax compliance and would also encourage investors away from property investment as the traditional means of wealth accumulation.

9. WHAT OTHER COUNTRIES ARE DOING

1. Around the world, there is a race to create supportive regulatory regimes that help to improve confidence in the cryptocurrency sector and increase investor confidence. The current landscape is a patchwork with some jurisdictions still having antiquated legislation while others have set the pace.

2. Examples of countries at the forefront of cryptocurrency legislation are Singapore, Estonia, Switzerland and El Salvador.

3. Singapore's Payment Service Act 2019 regulates payments and exchanges both in cryptocurrency and also traditional payment services. It is a model piece of legislation that creates a licencing system to regulate entities that facilitate the use of cryptocurrencies, to boost consumer safety and confidence, and enabling the seamless use of cryptocurrency with the same legitimacy as other payment services.

4. Estonia classifies cryptocurrencies as "value represented in digital form". Accordingly, it does not subject them to VAT. The Anti Money Laundering and Terrorism Finance Act 2017 introduced robust new regulations for cryptocurrency businesses operating in Estonia while allowing for innovation, helping drive a booming local industry. The Estonian Government mooted a form of national cryptocurrency, Estcoin, in 2017.

5. In June of this year, El Salvador became the first country in the world to pass a law making Bitcoin legal tender for all purchases.

6. The Swiss regulator worked with the industry to develop new policy and classifications for different kinds of digital assets as well as set in place guidelines for operating and licencing a bank type service in the digital asset space.

10. CRYPTOCURRENCY'S ELECTRICITY USE

1. There is frequent criticism of the amount of electricity used by cryptocurrencies. However, according to the University of Cambridge, the electricity used by Bitcoin amounts to 90TWh, around 0.4% of total global electricity supply. This is less than the energy used by the global gold mining industry (131TWh) and refrigerators in the United States alone (104TWh). An estimated 39% of the electricity used is renewable, which is higher than the global average for almost all activities and developed countries.

2. This electricity primarily arises from Bitcoin's proof of work system, whereby miners compete to earn Bitcoin by using vast amounts of computing power to solve a specific problem to prove they are a real computer on the network and have a right to participate in deciding the state of the ledger. Other cryptocurrencies designed after Bitcoin are far more energy-efficient. For example, Cardano and Dogecoin, with a combined valuation of over $100b, use 1/3000th and 1/14000th respectively of the energy per transaction that Bitcoin requires and a negligible impact on global electricity demand. These networks use the same kind of energy footprint as everyday web applications.

3. Cryptocurrency users are becoming more discerning about the issue of electricity usage, particularly electricity generated from fossil fuels. For example, Tesla recently announced it had purchased Bitcoin and would accept Bitcoin as payment but suspended that option over concerns about the emissions those transaction would cause and is now examining more environmentally friendly options.

4. A major challenge for converting to 100% renewable electricity is intermittency. The wind doesn't blow all the time, the sun doesn't always shine, dry years constrain hydro generation and production peaks don't always match demand peaks.

5. Batteries provide one solution to this – storing generation when there is an excess and releasing it then demand exceeds supply. Batteries are expensive, however, and store limited amounts of energy.

6. Another approach is to 'overbuild' renewable generation, reducing the amount of time when demand exceeds supply and the amount of expensive batteries needed, but creating more

period where supply exceeds demand. On its own, this goes against electricity generators' interests as it increases the periods when spot prices for electricity are very low. Cryptocurrency mining can improve the business case for this second option by scaling its power demand to increase during periods where electricity supply exceeds other sources of demand. This allows miners to take advantage of cheap electricity, while also resulting in a higher price for generators than would otherwise be the case and avoiding the need for generators to forego income by curtailing generation.

7. Unlike other suggestions for industrial activities that could scale production to make use of periods of renewable electricity over-supply, like Green Hydrogen production, cryptocurrency mining power demands can be adjusted instantaneously and don't have large capital inputs or delivery schedules that interfere with this scalability.

11. CRYPTOCURRENCIES CAN PREVENT MONEY LAUNDERING

1. Through using blockchain, cryptocurrencies ensure there is a permanent, unalterable entirely public record of all transactions. This means that every trade can be traced through to accounts and all the history of those accounts' interactions with other assets and transactions for all time.

2. Contrary to popular belief, cryptocurrency isn't fully anonymous – users are identified through a user number. In the same way you have a bank account number and it's not possible to determine who a person is from simply knowing their account number. Sophisticated software already exists to uncover the semi-anonymous account numbers. Know Your Customer and Anti-Money Laundering practices in the traditional finance sector mean that money transfers into cryptocurrency can be traced and linked to cryptocurrency holdings recorded in the blockchain.

3. In fact money laundering through cryptocurrency pales in comparison to money laundered in the traditional financial system. Studies estimate US$1-2.8b is laundered through cryptocurrencies, compared to US$800b-$2t laundered in total using cash and traditional finance, according to the UN Office on Drugs and Crime.

4. Blockchain technology is inherently bad for laundering money because it creates a permanent publicly searchable tamper proof record of all transactions and their linkages for Regulators and LOE to access. Contrast to the existing financial system which is opaque and often requires legal battles, warrants and negotiation with troublesome financial structures and jurisdictions to uncover a money trail. Many companies are working to add digital identity to blockchain transactions like local New Zealand companies Centrapass and Sphere, allowing privacy preserving identity information to be linked to transactions. And since VASPs like Easy Crypto and Dasset must comply with the AML/CFT Act, and accordingly perform due diligence on all customers, they are able to work alongside blockchain analytics companies, such as Elliptic and Chainalysis, and law enforcement, to trace and stop fraudsters, scammers and criminals from successfully moving value within New Zealand or around the world using public blockchains.

12. RECOMMENDATIONS

1. Cryptocurrency is here to stay and presents huge opportunities for New Zealand businesses and investors. We have the following recommendations for policy makers:

    - seek to understand from experts in the field the truth behind claims about the environmental impact of some kinds of cryptocurrency networks. Also to acknowledge that there are different types of algorithmic settlement for cryptocurrency which do not use large amounts of power to achieve network consensus. That, like most technology sectors, the industry is constantly innovating to mitigate its impacts.
    - understand that cryptocurrency is a form of decentralised and immutable database technology and there are many types of assets and applications that can exist on it. The committee should seek to understand that cryptocurrency is not one single thing and as such care is needed when implementing policies and regulation so as to not risk damaging innovation in unintended ways.
    - engage the services of experienced people in this industry to ensure that lack of knowledge in a nuanced discussion is not an issue in terms of decision making.
    - recognise and understand the work already undertaken by the Reserve Bank, FMA, DIA and IRD who already have policies in place to guide the industry, taking the lead of the FATF's guidance on cryptocurrencies and VASPs. That the best solution is for these agencies to continue to work with the industry to update and improve guidance as the industry evolves.
    - that the above Government agencies work together with the Ministry of Justice (MOJ) and industry experts to determine if the regulatory settings for cryptocurrencies and VASPs are appropriate to mitigate the financial, money laundering and terrorism financing risks associated with cryptocurrencies, while still meeting the purposes of the FMC Act (which includes promoting innovation and flexibility in the financial markets) and the purposes of the AML/CFT Act. The timing of the Committee's inquiry into cryptocurrencies and the MOJ's statutory review of the AML/CFT Act is fortunate.
    - understand fully the market opportunity of cryptocurrency and blockchain architectures, how fast innovation is happening globally and how Kiwi companies can create more opportunities for investment, employment and innovation in New Zealand.
    - understand that market innovation should determine technology winners and losers rather than intervention from policy makers
    - recognise that as an emerging technology sector there is a tendency for over sceptical popular narratives, that this is a frequent feature of any new market innovation so it's important to understand any biases they may have due to these narratives and seek to mitigate them.
    - recognise that with any new technology there are incumbents who are being disrupted and as such there are vested interests in creating ways to block competition.