



# Discussion Paper

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## **The Digital Currency Industry**

The digital currency industry in Australia is an exciting and dynamic sector driven by innovation and entrepreneurship, and it is showing much promise to be a major economic contributor and jobs creator in the years to come.

The Australia Digital Currency Commerce Association (“ADCCA”) is committed to working towards the creation of a world-leading regulatory framework and business environment created, and ensuring that Australia secures the benefits both today - and into the 21st century.

Global investment in Financial Technology innovation hit \$3billion in 2013. This is expected to reach \$8 billion by 2018. Nearly 40% of this investment was made in innovative payment products. The first quarter of 2014 saw the biggest influx of FinTech investment with \$1.7 billion invested globally.

The digital currency industry is expected to grow significantly as it benefits from this high degree of investment.

There are strong signals of growth in the Bitcoin economy with hundreds of millions of dollars worth of venture capital investment being earmarked as Bitcoin investment funds. These earmarked funds are in addition to the tens of millions that have been invested in just two US based companies, Coinbase and Bitpay.

In the United States, Coinbase recently received USD\$25 million in funding to bring total funding to \$31m. Bitpay raised USD\$30m in series A funding, and Marc Andreessen via his investment firm Andreessen-Horowitz has already invested \$50m and is investing further, “hundreds of millions”, into Bitcoin ventures.

Australia holds approximately 7% of the world’s investment in Bitcoin ventures. Coinjar have

Australia holds approximately 1% of the world's investment in Bitcoin ventures. Conjour have secured AUD\$500,000 from Blackbird ventures and digitalBTC raised \$9.1 million.

A new \$30 million investment fund has also been launched to invest in companies that are leveraging Bitcoin and crypto-currency services. The investors in this fund have stated that:

*"We view the emerging Bitcoin ecosystem as an investment opportunity that has transformative potential across a raft of social, technology- based and cultural applications and we see great scope for the broader adoption of Bitcoin and its related applications to redefine the global payment status quo".*

A \$30 million dollar local investment in innovation will result in a meteoric rise in the adoption of Bitcoin in the Australian community and it has the potential to deliver significant returns for local investors, the local community and the local government.

## **Innovation**

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Bitcoin is a highly innovative technology. New and emerging technologies like digital currency are likely to drive change into the market.

Together with the development of the NPP, the growth of Bitcoin as a payment option is one of the most important changes to the Australian payments landscape. Some of the benefits of digital currencies bitcoin are:

- The ability to attract significant levels of investment globally, with potential for Australia to lead innovation in Asia/Pacific region;
- Open access encouraging new entrants and facilitating innovation; and
- Safe alternatives to existing payment channels (for individuals, small and large business, etc) that complements payment options currently offered by banks.

Digital currency businesses can also work with traditional players in the banking and financial services sector and provide solutions for the industry to provide a broader range of solutions to customers.

For example, Fidor Bank in Germany teamed up with bitcoin exchanges to offer users the ability to save, trade, borrow and lend financial securities, from dollars to derivatives, without the need of an intermediary; and integrated real-time cloud-based open-source, distributed payment protocol that enables almost free instant payments in any currency, including dollars, yen, euros, bitcoins and loyalty points.

## **Bitcoin as a payment system**

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Every Bitcoin transaction is recorded by on a global register that is publicly available. Transactions are fully transparent, traceable and highly secure. The mining process is an inbuilt mechanism to maintain security of each transaction (i.e. mining process).

Bitcoin to Bitcoin transactions are verified and settled within 4 - 10 mins. Bitcoin to fiat currency settle in a similar period of time. Settlement is final and there is no double spend on a bitcoin transfer.

Decentralised arrangements guarantee the stability of the system, even in the face of currency fluctuation. Payment services providers can also simultaneously access multiple exchanges to ensure that if one exchange goes down, settlement can be achieved through other exchanges.

## **Discussion Points**

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The ADCCA welcomes the opportunity to discuss the following points:

- 1 How the Australian financial services sector can benefit from innovative technologies like bitcoin.
- 2 How Australia's regulatory framework can foster innovation and encourage new entrants in the financial services sector.
- 3 What is the correct regulatory approach to regulating digital currency businesses and other new entrants to the financial services sector.
- 4 How the ADCCA can play a key role in regulating digital currency businesses to ensure the growth of a robust and secure industry.

