

Regulatory Updates

Europe

During a plenary session held on 13 September in Strasbourg, members of the **European Parliament overwhelmingly voted in favour of the eighth iteration of the Directive on Administrative Cooperation (DAC8)**, a cryptocurrency tax reporting rule. The decision garnered significant support, with 535 members voting in favour, only 57 voting against, and 60 abstentions. DAC8 is designed to grant tax authorities the ability to monitor and evaluate every cryptocurrency transaction carried out by individuals or entities within the Member States. [According to the European Parliament:](#)

On 8 December 2022, the European Commission proposed to set up a reporting framework which would require crypto-asset service providers to report transactions made by EU clients. This would help tax authorities to track the trade of crypto-assets and the proceeds gained, thereby reducing the risk of tax fraud and evasion. The reporting framework would be set-up by amending the Directive on Administrative Cooperation (DAC), which is the main framework for other data exchanges between tax authorities.

In August 2023, **Ireland launched a public consultation** on how the country should use the discretion provided for in the new European legislation, Markets in Crypto Assets Regulation (MiCAR) (EU) 2023/1114, which [regulates crypto-assets](#). MiCA covers various aspects of crypto-assets and sets rules for transparency, authorisation, customer protection, and preventing market abuse. Stakeholders were invited to share their opinions, through an online portal, on how Ireland should exercise national discretions contained within MiCAR.

France is also moving towards the adoption of MiCA. The Autorité des marchés financiers (AMF) is updating its regulations and policies for digital asset service providers (DASPs) in response to the 'enhanced' registration requirements introduced by the DDADUE law. Effective from 1 January 2024, these changes aim to prepare for the European regulation on markets in crypto assets (MiCA) while also aligning DASPs' licensing requirements with European standards. This adjustment facilitates a faster authorisation process for crypto-asset service providers (CASPs). Furthermore, these revisions extend the policy's coverage to address emerging market issues and changing business models ([source](#)).

In September 2023, **France launched the non-obligatory [Responsible Influence Certificate in Finance](#)**. The AMF and the Autorité de Régulation Professionnelle de la Publicité (ARPP) have jointly set up a training module for influencers in the financial sector, including crypto. To gain the certificate, influencers are required to score a minimum of 75% correct answers on a set of 25 multiple-choice questions.

Jacobi Asset Management, headquartered in London, has introduced **Europe's first bitcoin exchange-traded fund (ETF) on Euronext Amsterdam**, nearly two years after its initial approval. This ETF, named the Jacobi FT Wilshire Bitcoin ETF, is overseen by the Guernsey Financial Services Commission (GFSC) and will be traded under the symbol 'BCOIN'. [Jacobi's announcement](#) revealed that Fidelity Digital Assets provides custody for the fund, while the trading firm Flow Traders operates as the market maker. Originally approved in

October 2021, Jacobi had initially planned to list the ETF in 2022 but decided to delay the launch due to the challenging crypto market conditions last year.

USA

In August 2023, **PayPal introduced a new digital currency called PayPal USD (PYUSD)**. The online payment platform became the first major US financial institution to introduce its own stablecoin, backed by the US dollar. In contrast to most other cryptocurrencies, whose value fluctuates on the basis of market demand, stablecoins are usually anchored to tangible assets, such as commodities like gold or established currencies like the US dollar. This backing helps stablecoins maintain a relatively stable and consistent value. According to the [PayPal press release](#), 'PayPal USD (PYUSD) is fully backed by U.S. dollar deposits, short-term US treasuries and similar cash equivalents, and can be redeemed 1:1 for U.S. dollars'. PayPal USD is issued by Paxos Trust Company, a fully licensed limited-purpose trust company that operates under the regulatory supervision of the New York State Department of Financial Services.

The **Biden-Harris Administration has [released proposed regulations](#) on the sale and exchange of digital assets by brokers** 'in an effort to crack down on tax cheats while helping law-abiding taxpayers know how much they owe on the sale or exchange of digital assets'. According to the press release, the proposed regulations outline the necessity for digital asset brokers to report specific sales and exchanges. They aim to provide clarity and alignment with tax reporting standards, ensuring that digital asset brokers adhere to the same information reporting rules as brokers dealing with securities and other financial instruments. Numerous well-known crypto experts [expressed their concerns](#) that these regulations could further discourage crypto companies from doing business within the United States.

Coinbase has requested a judge to dismiss the lawsuit filed by the Securities and Exchange Commission (SEC), asserting that the regulatory body has overstepped its jurisdiction by suing the cryptocurrency exchange. The [memorandum of law was filed](#) in August 2023, and the SEC has until 3 October to file a response to Coinbase's motion ([source](#)).

In its court filing on 14 September, the SEC [accused](#) Binance.US of not cooperating with its ongoing investigation. It said that the exchange produced only 220 documents in the discovery process, many of which 'consist of unintelligible screenshots and documents without dates or signatures'. This comes at a time of reported [internal crisis](#) at the exchange with the exit of its CEO, head of legal and chief risk officer, and the company cutting around a third of its workforce. Trading volumes in Binance.US [dropped](#) to a new low in September.

Revolut announced that it will no longer offer crypto services to US customers, citing the uncertainty of the regulatory environment and crypto market in the country. Starting 2 September, Revolut no longer permits US customers to make cryptocurrency purchases. Then, as of 3 October, all cryptocurrency activities, including buying, selling, and holding, will be completely disabled for US customers ([source](#)).

A New York court classified Bitcoin and Ether as commodities while [dismissing](#) a class action lawsuit against Uniswap, a decentralised cryptocurrency exchange. The lawsuit had alleged that Uniswap violated US securities laws by allowing scam tokens to list and trade but the court refused to 'stretch the federal securities laws'. The verdict will potentially influence future crypto-related litigations.

UK

Starting on 1 September 2023, crypto-asset firms operating in the UK need to gather, verify, and exchange data concerning crypto-asset transfers, referred to as the 'Travel Rule'. The [Financial Action Task Force \(FATF\)](#) has urged other jurisdictions to **promptly adopt the Travel Rule**, which standardises procedures for cryptoasset companies engaged in both sending and receiving transactions, aligning them with established practices in other financial service sectors. The Travel Rule is expected to be applied in the EU in early 2025.

Rest of the World

On 15 September, the **Hong Kong Monetary Authority (HKMA)** [issued a warning](#) to users reminding them 'to beware of firms engaged in crypto business purporting to be "banks" or describing their products as "deposits"'. The central bank emphasised that, according to Hong Kong's banking laws, only licensed institutions are permitted to engage in banking or deposit-taking activities within the region. The warning by the HKMA came following the SFC's (Hong Kong's crypto regulatory authority) [warning directed at JPEX](#), accusing the company of promoting its services to the Hong Kong public without holding a valid licence or initiating the licensing process within its jurisdiction. The SFC's assertion is based on JPEX's website, where the platform is portrayed as licensed and officially recognised, despite operating without regulatory oversight.

The Financial Transactions and Reports Analysis Centre of **Canada (FINTRAC)** [released a document](#) providing information to consumers regarding the regulator's responsibilities in supervising money services businesses (MSBs). This document includes an overview of the various types of money services businesses operating in Canada, including foreign ones, and urges consumers to remain vigilant when deciding to use the services of this type of business.

The Australia and New Zealand Banking Group (ANZ) has taken a significant step forward in the [development of its bank-backed stablecoin, A\\$DC](#). The bank achieved this milestone by successfully conducting a test transaction using Chainlink's cross-chain interoperability protocol. According to an official statement, ANZ is 'actively exploring the use of decentralised networks through a 'test-and-learn' approach'.

A Chinese court report says that virtual assets are akin to legal property, protected by law. A report published by the People's Court of China on the [legality](#) of virtual assets noted that these assets have economic attributes and thus, under the current legal framework, can be classified as owning property, which is protected by law. The court report stands in contrast to China's national policy, which bans all crypto-related activities.

Technological Trends & Developments

Ethereum's Long-Awaited Holesky Testnet Launch Fails

On Friday 15 September, the first anniversary of the Merge, Ethereum developers attempted to launch a new public testnet, the Holešovice Testnet. Holešovice, or simply Holešky/Holesky, is supposed to replace the already deprecated Goerli Testnet, which will keep on receiving long-term support until early 2024. Goerli, and the newer Sepolia network, are currently the two public testnets for client developers, both with unique characteristics in their design, making each suitable for slightly different purposes. Goerli, which was the first PoA (proof of authority) multi-client network, is more suitable for testing staking and validating performance,

something particularly insightful after protocol upgrades, whereas Sepolia is more suitable for testing decentralised applications. Following the past year's remarkable upgrades, Ethereum developers decided that, in order to build a framework for more accurate testing of the Mainnet's infrastructure capabilities, they would have to create bigger testnets. Currently Goerli and Sepolia are validated by a subset of the Mainnet's validators, but Holesky will actually support roughly twice as many validators as those currently on Ethereum, thus helping address scalability problems, and ensuring that tests running properly in the new testnet are more likely to represent successful Mainnet scenarios. As Holesky would undertake the infrastructure testing, before to 15 September, Goerli developers were advised to migrate their applications to Sepolia, which will continue to operate as the main application development testnet. The overall deployment of the network, however, failed due to a misconfiguration in one of its genesis files, [according to an Ethereum Foundation engineer](#). The same source stated that the next attempt at a launch could be delayed for approximately two weeks.

KZG Summoning Ceremony

On 24 August, Ethereum's KZG ceremony was completed with 141,416 total contributions, making it the largest Ethereum ceremony to date. The purpose of ceremonies is to use resources from Ethereum members all around the world and thus enhance the decentralised aspect of the network, along with enjoying the benefits this approach provides. In this case, the purpose of the KZG ceremony was to prepare for EIP-4844, a future protocol change of Ethereum, also known as Proto-Danksharding. Ethereum's Sharding, or Danksharding, is a long-term goal of the developer team, which aims to reduce transaction fees and increase the network's throughput, by splitting the database into 'shards' that will host different blobs of data, whose contents correspond to transaction data, and which are at some point removed from the network. In this scenario, a block builder picks transactions to provide the data blobs for, and afterwards, validators verify the blocks just by confirming the availability of a sample of the blob's data. Since, however, getting to this stage is a complicated process, Proto-Danksharding has been proposed as an intermediary solution. In Proto-Danksharding, some preparatory activities for the Danksharding will take place, like introducing blob-carrying transactions – transactions accompanied by pieces of extra data called blobs – but sharding will not actually take place and users will still have to validate the availability of the full data. These new data processes require a new cryptographic foundation called KZG Commitments. For this scheme to work, a multi-party ceremony took place, in which participants, who were required to have a minimum record of 8 transactions, added their own secrets in the form of computations, to a stack of secrets from past contributors. The ceremony's final setup could only be compromised if every contributor revealed their secret, meaning that the larger the number of participants in the ceremony was, the more secure the scheme would be. In that sense, the trusted setup, which first started forming in January 2023, provided a robust foundation for EIP-4844.

Sei Blockchain Launches

Sei, a Layer 1 blockchain focused on trading, went live on 15 August after a period of testing. Sei was developed by Sei Labs using the Cosmos SDK, meaning that it is part of the Cosmos ecosystem of appchains, and is secured by the Tendermint BFT consensus engine. Sei's distinct characteristic is its remarkable speed.

Public Goods Network – Ethereum Layer-2 Goes Live

In late July, the Public Goods Network, or PGN, went live. PGN is a low-cost Ethereum Layer-2, built using the Optimism Stack, which means it is part of the Optimism Superchain of L2s. This ensures it is secured by Ethereum, while having the cost-effectiveness, scalability, and speed of Layer 2 solutions. PGN was developed by a consortium of different actors, led by the Gitcoin team, whose aim is to develop new ways of providing

funding for public goods. Decentralised applications can be run on PGN, and their corresponding fees will be allocated towards public goods communities and projects, with the end recipients being determined by the Public Goods Alliance, the governing and organising body behind PGN. This way, users and developers can have an alternative Ethereum experience, within which they also have the opportunity to support public goods. The initial assessment and allocation of the funds originating from the fees will be concluded within six months after the network's launch. Future upgrades will also allow smart contract developers to obtain a percentage of the fees via the Contract Secured Revenue (CSR) process.

Shiba Inu's Shibarium Layer-2 Launches with Issues

Wednesday 16 August saw the launch of Shibarium, an Ethereum Layer-2 blockchain, which also acts as a bridge for the transfer of BONE, TREAT, SHIB and LEASH tokens. It is essentially an effort by the Shiba Inu team to prove that the SHIB token can be something more than a simple meme coin related to dogecoin. The appealing aspect of this more 'serious' project, is the relatively low cost of running applications, making it a general purpose blockchain that could even be classified as a DeFi project. The developing team has stated that the network will focus on the metaverse, NFTs, and gaming applications, and has also expressed the feeling that the token's pre-existing popularity and community can be a great base for the creation of a truly decentralised, multi-purpose system. Its launch, however, did not go completely smoothly, since users reported transactions stalling for many hours, and many tokens that were being transferred via the bridge with Ethereum getting stuck in it. The Shiba Inu team however, reopened the network a few days later, stating that this was an isolated incident caused by their servers' inability to handle the traffic, and they assured the community that measures have been taken to prevent such problems from ever occurring again. As a protocol, Shibarium is forked from Polygon, and uses a proof-of-stake consensus mechanism.

Chain Development Kit Released by Polygon for ZK-Powered Networks

Following the announcements from many Layer-2 firms, such as Matter Labs, of the release of toolkits for the development of ZK-fueled chains, Polygon released the Chain Development Kit (CDK) on 17 August. This toolkit enables developers to create their own custom chains, which will be part of an ecosystem called the Value Layer. Layer-2 chains that are part of this ecosystem will be interoperable, just like Polygon Supernets are, but with ZK-powered bridges providing additional security, speed, and lower fees. Since Polygon is steadily adopting more ZK cryptography solutions, the already existing toolkit for the development of application-specific chains, as parts of the Supernets ecosystem, could be upgraded to leverage the ZK features that CDK has introduced.

Consensys Introduces 'Snaps' for MetaMask Wallet

On 12 September, MetaMask Snaps was presented to the public by the prominent blockchain software company Consensys. Snaps are essentially add-ons developed by third parties that can be added to the MetaMask wallet and provide additional custom functionalities. Due to the sensitive nature of the data that a wallet manages, MetaMask's features used to be developed solely by the Consensys team. Consequently, iterations of new Snaps additions will be audited by Consensys, until a point at which the wallet will transit to a fully permissionless system. The MetaMask developers' vision is that of an application belonging to its community and adhering to the Web3 principles of innovation and decentralisation. For now, the initial stage of this process involves the introduction of 34 Snaps, which introduce new features for further transaction insights, enhanced chain interoperability, and additional user notifications.

Lukso Blockchain Introduces ‘Universal Profiles’

Lukso, the Layer-1 chain co-founded by Fabian Vogelsteller, the inventor of the ERC-20 token standard, is providing a new feature, currently in beta, which presents a new approach to users’ on-chain identity. Lukso’s design, centred on the creative economy, is directly linked to a user-friendly experience, which aims to facilitate beginners – and generally all kinds of users – onboard to the blockchain world. The users’ universal profiles are different to traditional externally owned accounts adopted by large blockchains such as Ethereum and Bitcoin, mainly in the sense that advanced recovery options are available, even in the event of loss of private keys. Moreover, additional data can be attached to a profile, which can correspond to any kind of information and media and is readable by all sorts of decentralised applications on the chain. This type of multi-purpose identity makes all interactions within the chain seem direct and simplified, in a manner not very different to the one occurring when using traditional Web2 profiles. Moreover, users do not have to constantly pay for their gas fees but can choose a charging plan for their overall transactions, which is offered in a marketplace set by the Foundation for the New Creative Economies, the body behind Lukso. These innovative solutions, according to Vogelsteller, are directed towards making Lukso eventually surpass even the Ethereum network in size.

opBNB Layer-2 Chain Goes Live

On 13 September, BNB chain developers launched a Layer-2 network using the Optimism Stack. opBNB’s deployment was the result of many months of testing, with the end goal of increasing the BNB smart chain’s throughput and lowering its fees, making the BNB ecosystem one of the most prominent blockchain infrastructures. Since it was built using the OP Stack, opBNB is part of the Optimism Superchain, making interoperability with the Ethereum blockchain and the rest of the optimistic rollup solutions possible.

Coinbase’s Base Blockchain is Launched

Coinbase, the largest crypto exchange in the US, officially deployed its own blockchain network, called Base, in a landmark event opening up the way for more publicly traded companies to develop their own blockchain infrastructures. The launch of Base on 9 August was part of long-term planning by Coinbase’s leadership, aimed at making the company present in all aspects of the crypto economy. Base is built using the OP Stack, meaning it is essentially a Layer-2 network, part of the Superchain ecosystem, and EVM compatible. Apart from the launch of Base, Coinbase also promoted the kick-off of an ‘Onchain Summer’ lasting several weeks, until the end of August, in which major brands such as Coca-Cola (KO) participated with the aim of promoting and showcasing the capabilities of the network.

Chronicle Expands Beyond MakerDAO

On 5 September, the developer team behind the Chronicle oracle, declared the future transition of the project, into a blockchain-agnostic one. Currently, Chronicle is the second largest oracle provider, ensuring the integrity of assets worth more than USD 5 billion residing in the MakerDAO ecosystem. The announcement of the launch of the Chronicle Protocol, confirms the continued safeguarding of the MakerDAO ecosystem, but also the attempt to provide verifiable data to external networks as well. Adoption by Polygon’s zkEVM is currently the first move in the making, an event that could also lay the foundation for the integration by Polygon of the Spark Protocol, one of Chronicle’s key partners. It is estimated that this particular solution could provide savings of 60% on gas fees compared to other oracle providers.

Market Updates

Lazarus Group steals over USD 290 million in five hacks in four months

The Lazarus Group, a cybercrime organisation linked to the North Korean government, has stepped up its cyberattacks since June and [targeted](#) five virtual asset service providers for a combined value of USD 292.3 million. Targets include Atomic Wallet (USD 100 million stolen) in June, CoinsPaid (USD 37.3 million) and Alphapo (USD 60 million) in July, and Stake.com (USD 41 million) and CoinEx (54 million) in September.

Binance caught up in legal and regulatory headwinds

The last few months have been tough for Binance, with [falling](#) trading values, [loss](#) of fiat partners, a spat of high profile [resignations](#), and several [charges and allegations](#) in different countries ranging from operating an illegal trading platform to money laundering. The US SEC has sued Binance, the UK regulator revoked some of its permissions, Netherlands rejected its license application, Belgium ordered it to cease operations, and France is investigating it for money laundering. Binance, on the other hand, is diversifying amid regulatory pressures in the West, and recently received crypto [licences](#) from Thailand and Kazakhstan.

SEC reports Binance.US not cooperating with investigation

In its court filing on 14 September, the SEC [accused](#) Binance.US of not cooperating with its ongoing investigation. It said that the exchange produced only 220 documents in the discovery process, many of which 'consist of unintelligible screenshots and documents without dates or signatures'. This comes at a time of reported [internal crisis](#) at the exchange with the exit of its CEO, head of legal and chief risk officer, and the company cutting around a third of its workforce. Trading volumes on Binance.US [dropped](#) to a new low in September.

Bitcoin ETF gaining pace in the US

At least seven major institutional investment firms, including the world's largest asset manager, BlackRock, applied to the US Securities and Exchange Commission (SEC) for a spot bitcoin exchange-traded fund (ETF) in June and July 2023. However, the regulator deemed the filings [inadequate](#), citing a lack of information on surveillance arrangements. On the other hand, Europe's first bitcoin ETF was [launched](#) on 15 August on Euronext Amsterdam.

China unveils blockchain-powered Hangzhou Data Exchange

On 23 August, China [launched](#) the Hangzhou Data Exchange, a blockchain-powered exchange to facilitate the trade of enterprise information technology data among corporate entities and ensure 'immutable and traceable' transactions. More than 300 tech firms, including Chinese giants Alibaba and Huawei, are participating in the exchange. Hangzhou has been at the forefront of Web3 in China, and this launch will further cement its position.

Tel Aviv Stock Exchange partners with Fireblocks to offer crypto services

The Tel Aviv Stock Exchange, Israel's only public stock exchange, [signed](#) a strategic partnership agreement with Fireblocks, a crypto services provider, to offer a range of digital asset products and services for regulated entities. The exchange hopes that this partnership will 'open new frontiers in tokenising various assets, creating new markets, and presenting unparalleled opportunities for growth for both TASE and the local capital markets'.

Terra founder Do Kwon arrested, sentenced in Montenegro

Do Kwon, Terraform Labs founder and CEO, was arrested on 23 March in Montenegro following an Interpol red notice against him for his alleged role in Terra's collapse. He was [sentenced](#) there on 20 June to four months in jail for forging official documents. Both the US and South Korea have approached Montenegro for his extradition. Meanwhile, the trial of Terraform Labs co-founder Shin Hyun-Seong, together with seven others, [began](#) on 10 July in Seoul, the capital of South Korea.

Kazakhstan earned USD 7 million from mining tax in 2022

Kazakhstan, which is world's third largest bitcoin mining hub, [earned](#) approximately USD 7 million in 2022 in tax from crypto mining entities. It introduced a mining tax in early 2022 based on electricity consumption by the miners. The country's bitcoin rate in January 2022 stood at 13.22%, right behind the US (37.84%) and China (21.22%).

Sequoia announces three-way split with focus on different regions

On 6 June, Sequoia Capital, one of the world's largest venture capital firms, with names like FTX and Trade Republic in its portfolio, announced a [split into three entities](#), each with a focus on specific markets: the US, China, and Asia. It cited brand confusion and global financial complexity, but analysts believe that the decision was taken in the wake of rising US-China tensions. The firm's US and European business will retain the Sequoia name, the Indian/Southeast Asian arm will become Peak XV Partners, and the Chinese arm will be called HongShan.

Centralised exchanges pledge over USD 2.5 billion for user protection funds

In the wake of FTX's collapse, several centralised exchanges have reportedly established [user protection funds](#) to the combined value of over USD 2 billion. Binance has put aside the largest sum, USD 1 billion, OKX has USD 700 million, Bitget has USD 300 million, Huobi has reserved BTC 20,000 as collateral, while Coinbase grants GBP 150,000 (USD 189,000) insurance for UK-based customers. Only Binance and Bitget have disclosed the on-chain address of these funds.

Scams, hacks, and rug pulls cost USD 656 million in losses in H1 2023

According to a [report](#) by Beosin, a Web3 security firm, a combined value of USD 656 million in various cryptocurrencies was lost as a result of scams, hacks, and rug pulls in the first half of this year. This consists of USD 471.43 million from 108 hacks, USD 108 million from various scams, and USD 75.87 million from 110 rug pulls. These numbers indicate a marked decrease over 2022, when USD 1.91 billion and USD 1.65 billion were lost in the first and second halves of the year, respectively. Furthermore, 45.5% of stolen assets were recovered in 2023, compared to only 8% in 2022.

Austrian car-sharing company uses blockchain to tokenise fleet

Eloop, a Vienna-based car-sharing company, has [tokenised](#) a fleet of 100 Tesla cars. Owning the tokens implies owning a fraction of the fleet, and car rental revenue is distributed on the basis of token holdings. The tokenisation is done in collaboration with the Peaq Network, a Web3 network for the Economy of Things and is built on the Polkadot blockchain. Eloop has plans to scale the idea across Europe in future.

Crypto VC funding drops in fifth consecutive quarter

According to data from PitchBook, a financial data company, [venture capital funding](#) for cryptocurrency startups stood at USD 2.34 billion across 382 deals in the second quarter of 2023, a drop from USD 2.6 billion in Q1 2023 and way below the industry's peak of USD 12.14 billion in Q1 2022. The decline can be attributed to regulatory uncertainties, especially in the US, and signs of an ongoing 'crypto winter'.