



Crypto consultation: The Australian token mapping exercise

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On 3 February 2023, Treasury released its 'Token Mapping Consultation Paper' (**Consultation Paper**). The paper seeks to explore how existing regulation applies to the crypto sector and to inform future policy choices in the crypto industry.

The Important Bits

- Token mapping is the process of grouping types of crypto assets together based on their core code and technological features for the purposes of:
 - understanding how the crypto ecosystem interacts with Australia's existing financial services regulatory framework; and
 - developing an appropriate regulatory framework.
- Treasury has proposed that there be four product types grouped under two kinds of token systems as follows:
 - intermediated token systems: crypto asset services and intermediated crypto assets; or
 - public token systems: network tokens (a type of crypto asset) and public smart contracts (including some crypto assets created using smart contract tokens).
- Treasury is seeking feedback. Responses to the Consultation Paper are due by 3 March 2023.

Background

In October 2021, the Senate Select Committee on Australia as a Technology and Financial Centre released its Final Report. Relevantly recommendation 3 of that Report recommended that 'the Australian Government, through Treasury and with input from other relevant regulators and experts, conduct a token mapping exercise to determine the best way to characterise the various types of digital asset tokens in Australia'. Consequently, on 22 August 2022, the Australian Government announced that it would prioritise 'token mapping' in order to help identify how crypto assets and related serviced should be regulated. The Consultation Paper for the Government's 'token mapping' exercise has

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now been released ([link](#)).

What is 'token mapping'?

According to Treasury, 'token mapping' seeks to build a 'shared understanding of crypto assets in the Australian financial services regulatory context'. It is a process through which various types of crypto-asset tokens are classified in order to assist in the development of an appropriate regulatory regime and to ensure that regulatory classifications for these assets are fit for purpose.

The token mapping framework defines the concepts of 'tokens', 'token systems' and 'functions' as follows:

- *crypto token* - performs the record keeping role. It is analogous to a physical token or an entry in a registry. It is a unit of digital information that can be 'exclusively used or controlled' by a person.
- *token system* - is the business or social protocol, or mechanism. It is the steps taken to perform a function in relation to crypto tokens.
- *function* - is the product or benefit provided by a token system. A function can be any benefit ensured or facilitated by the token system to the token holder.

Identifying the function in particular is important, as it provides the key link to the existing financial services regulatory framework. The 'functional perimeter' captures facilities through which, or through the acquisition of which, a person undertakes 'general financial functions'. Mapping crypto assets against the 'functional perimeter' requires asking whether a 'token system' is a 'facility' and if so, is 'the facility one through which a person does any of the general financial functions?'. If the answer is yes, then the 'facility' is a financial product.

Besides defining whether a crypto-asset falls within the 'functional perimeter' and is therefore captured by the existing financial services regulatory framework, the token mapping exercise will also identify which crypto assets are not captured by the existing regime and therefore whether a new regulatory framework is required in order to ensure that they are regulated.

What's next?

- Treasury is seeking feedback on the consultation questions throughout the Consultation Paper to inform policy development.
- The Government will propose a framework for custody and licensing for public comment in mid-2023. Feedback to the Consultation Paper will be used to shape the development of this framework.
- The closing date for submissions is 3 March 2023.

How can we help?

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