

secretary

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Subject: Technology Advisory Committee - Suggested Reading Material

Ms [Eva Kaili](#), Chair of the European Parliament's Science & Technology Option Assessment Panel wrote an excellent essay on the Distributed Ledger Technology regulation, and the regulatory framework that will allow the European Union to benefit greatly from the coming growth of the DLT industry.

I would ask that members of the Technology Advisory Committee take the 6 minutes or so to read the below essay taken from [CoinDesk.com](#)

Eva A. Kaili is a member of the European Parliament, where she chairs the Science and Technology Options Assessment (STOA) panel aimed at assessing AI, fintech and blockchain.

The following article is an exclusive contribution to CoinDesk's [2017 in Review](#).

The internet is once more in a period of transition.

The "cloud era" that served consumers and firms so well so far, little by little, gives its place to the "era of decentralization," or the era wherein the end-users of computers will not only own and manage their hardware in a decentralized way, but also own and manage their own data in a decentralized way.

DLT is the technology that will enable this transition.

Neither an infant nor an adult, the technology is like a teenager who has already shown strong potential and raised great expectations. But, as it happens with all the teenagers, in order to materialize their potential, they need a disciplined framework, some boost of confidence, a feeling of certainty and the wisest possible direction when necessary.

In the case of a technology, this role is played by the enthusiasts who adopt it and those who resist it. Resistance to the technology is not bad or negative. Historical experience has proved that in the course of time resistance was undeniably essential in advancing a technology and making it useful.

In the case of [DLTs](#), we see real enthusiasm, but we also see resistance coming from incumbents and traditional players and business models.

We can see the potential in every sector for the users both in their capacity as consumers, but also as citizens. I will not repeat the benefits of DLTs here. The market has already unveiled a lot of them, and many more are yet to come.

Moreover, it is not necessary to stress the disruptive impact of disintermediation. Emerging business models democratize the value chains, remove transaction costs, optimize the allocation of resources and risks, expand the social inclusion and improve the quality of services and products we receive as customers and as citizens.

We, as "blockchain evangelists" contaminate our enthusiasm and faith, while startupers all over the world tirelessly produce fantastic white papers and make radical value propositions and more and more governmental institutions respond to the new challenges, sometimes reluctantly and sometimes bravely.

Level playing field

So far, the European Union has had an enthusiastic approach.

I have the honor to be the rapporteur of the first Blockchain Resolution of the European Parliament, and my task is more or less to propose a framework of rules that can be adopted as the regulatory basis in the EU area.

Moving from the role of the believer to the role of the regulator is really challenging. It is challenging because suddenly my job is not to convey to others the [benefits of blockchain](#), but to create a pathway that will allow us to go there as fast as possible with the least possible frictions and U-turns.

The first requirement is to create a level playing field for both DLT firms and consumers that guarantees legal and institutional certainty.

Without certainty, we cannot have the required scalability for the technology. Moreover, institutional and legal certainty, at a European Union level, has to be harmonized.

Otherwise, a regulatory fragmentation will create frictions that can kill the smaller firms. This is the reason why we need some level of standardization and a flexible but functional policy of EU-passport for blockchain products and services.

Strong foundation

For me, blockchain is not just a beautiful technology. It is an infrastructure. It is capacity building. Thus, standardization is not just a vehicle of cross-border business activity. It is also a prerequisite for infrastructure interoperability.

There are thousands of platform options and nobody knows how many DLT alternatives and business models. The question is: How will this constellation of DLT ecosystems work together?

In my view as a regulator, linking scalability with interoperability is strategically critical.

Standardization can be simple or complicated. I have a proportional attitude toward this issue. Given that we cannot regulate a technology as such, the level of standardization should be proportional to the principle of innovation. This means that we cannot regulate a technology that is still evolving. Let the innovation deliver its fruits first.

A corollary principle is that regulation must be technology neutral. For example, a cryptocurrency should be considered as a means of payment, not a means of exchange.

The third regulatory principle is that the regulator must be business model neutral. For example, in the case of payments, the KYC requirements for a bank cannot be less strict than they would be for a non-bank firm.

No cookie cutter

When we say standardization, we must ask about what we are standardizing.

Well, based on the use-cases that have reached a trustworthy level of maturity, I believe that having an idea of some limited standards about identity, [smart contracts](#), data protection and cybersecurity, would be very useful for both firms and consumers.

Obviously, the aforementioned regulatory principles and approach betray the preference of the regulator to introduce a framework with impact. To have impact, you need to go further than a "light touch" approach. We need smart regulation and smart regulation is not necessarily a regulation that parcels new ideas in old regulatory boxes.

New challenges require new definitions, new categorizations and some sort of creativity. Thus, a smart regulation is the regulation that fit the purpose we have in our mind.

To make this statement obvious look at the discussion about [ICOs](#). There is a very interesting debate that tries to resolve the problem of what an ICO is – is it a security or a commodity? The immature U.S. regulator defines it as a security.

In Europe, we believe that this old regulatory box does not fit with what we actually have before us. Why must an ICO be defined as a security or a commodity? An ICO is an ICO, and we need a certain enabling regulation that will help firms to expand their crowdfunding activities and at the same time, the investors to feel comfortable with it.

The regulator must be generous with a new technology, for example through the creation of regulatory sandboxes, and this is my attitude toward DLTs.

Regulatory generosity is critical in the early stages of a technology because it will allow the emerging business models to move fast from a "proof-of-concept" mentality to a "delivery of quantitative and qualitative results" stage.

Only then we can see the actual impact of the technology on the markets and society as a whole.

Charting the way

To sum up, EU institutions have taken a positive approach, but this is by necessity a multi-level approach.

Different directorates of the European Commission have different concerns. Other directorates are concerned with the infrastructure dimension of the DLTs, others with the financial impacts and the market structure, others with the social impact on employment and the quality of democracy.

In the European Parliament, I will try to remove any fragmentation and provide a "global view" on the subject for the EU.

Blockchain is a highly political subject. It is not economical. It is not about speculators making money, but about reinventing the concept of trust in a period where our societies need trust more than ever to maintain and improve social coherence.

By necessity, blockchain is an exercise of institutional transformation in which no citizen and no politician can stay indifferent.

Blockchain requires our care. It is a new-trust mechanism but not a careless one. It can make the world a better place.

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