

Reading time: 8 minutes

## Introduction

The expanding interest in cryptocurrency investment has instigated many concerns in the minds of the Malaysian youth. Is cryptocurrency safe? Are Malaysian regulators ready for the influx of cryptocurrency investors? Is there a need for new bills on cryptocurrency to be passed? What does the future hold?

To answer these questions, FLY Journalists - Bryan Ng, Yean Quen and Cheong Hien set up an interview with Arif Lee, current Business Development and Liquidity Lead in Luno Malaysia. This article therefore discusses the current legislation of cryptocurrency in Malaysia, past crypto-scandals, the future of cryptocurrency, and its potential for participation from authoritative bodies.

Luno is a centralised cryptocurrency exchange regulated by the Securities Commission (SC) and Bank Negara Malaysia. Not only are they Malaysia's first cryptocurrency exchange to obtain regulatory approval as of October 2019, but they also recently surpassed 8 million customers in the 40 countries that they support and operate in.

## Cryptocurrency and Blockchain

Arif Lee defined cryptocurrency as an asset class that people can trade with, just like commodities, except cryptocurrency is established in a digital space. If you wish to learn more about cryptocurrency, feel free to explore previous pieces written by our [Journalists](#) and [Researchers](#).

The technology that empowers the existence of cryptocurrency is known as *Blockchain*. Arif specified that it is a chain of blocks that consists of data. It is simply a way for you to store data. In cryptocurrency, this block is used to store transactions. This chain of blocks act like a public ledger by allowing people around the world to prepare data swiftly and safely.

*“One easy way to describe this would be to imagine your report card being available to your family and teachers at any current time.”*

There are numerous misconceptions surrounding the aforementioned concept, especially with the uproar of personal data scams. Many people believe that the transparency provided by blockchain is the opposite of a solution. On the contrary, this transparency is the added benefit. Your data can no longer be controlled by a single entity and therefore, the consumer (you) cannot be exploited.

## Decentralisation Concerns

Although the decentralisation of blockchain and cryptocurrency is illustrated as a perk, the voices of concern continue to echo. There have been many occasions where cryptocurrencies were manipulated for illegal purposes. This sparks an issue regarding the lack of regulation and legislative frameworks specifically towards blockchain. So how can we benefit off of decentralisation, while reducing illegal activities?

We questioned Arif on whether he thinks there are any specific relevant bodies that are regulating cryptocurrencies while maintaining its foundation of decentralisation. To which he answered that in Malaysia, the SC came up with the framework for Luno's exchange system. The key here is that the SC does not regulate the technology of crypto itself, and therefore, does not influence the market. Instead, they regulate cryptocurrency exchanges to make sure that there is a safe place for crypto-investing.

He further added that, Bank Negara Malaysia also plays a part in things like anti-money laundering by issuing guidelines. These regulators are essentially creating an environment according to each country's regulations for the technology of crypto to operate in.

*"Now, you have countries believing decentralised blockchains are good and are embracing it, I do not see it as a negative impact to the cryptocurrency market."*

Countries like China and Singapore have embraced blockchain and utilised it to improve their current financial institutions. It catalyses faster transactions, higher security, transparency, increased accessibility, lower fees and the ability to implement smart contracts. The fact that China is running a pilot project of its own digital yuan proves that people/businesses are realising that the technology is most likely to help us rather than replace us.

### **Is Bitcoin Suitable for Criminal Activities?**

After focussing on the market's decentralised blockchain, let us move on to the cybersecurity issues regarding cryptocurrencies and its hindrance towards the market's credibility and potential for legislation.

*"Specifically, when it comes to Bitcoin, it is not the best cryptocurrency to use, especially for criminal reasons"*, quoted Arif. Today, the public has a misapprehension about the safety of cryptocurrency, especially Bitcoin. Bitcoin users are thought to be anonymous and therefore cannot be tracked. Hence, the misconception of it being a good tool for criminal activities arises.

*"The truth is that Bitcoin itself is not anonymous, it is pseudonymous."*

In other words, while you will not be able to identify the holder of the wallet, you will know (based on Blockchain) that Wallet A interacted with Transaction B. Hence, you are able to track the transaction of the fund.

The intensive use of blockchain in the cryptocurrency industry facilitates transparent transactions. In April 2019, a ransomware attack popularly known as the Colonial Pipeline Attack took down the largest fuel pipeline in the U.S. The hackers gained entry into the networks of the Colonial Pipeline company. Their reward? A whopping \$4.4 million paid solely in 75 Bitcoins. Unfortunately for them, 63.7 of the 75 bitcoins were traced and recovered by the U.S. Department of Justice.

## **Malaysia's Current Legal Framework**

Since we are now aware that the U.S. and China are playing their part, let us move on to Malaysia. When asked which methods the Malaysian government or crypto-traders should use for safer crypto-trading practices, Arif responded that the Malaysian government has done their part when it comes to cybersecurity and possessing your own account.

*“The SC regularly and very frequently coordinates cybersecurity exercises and drills. There’s a simulation done to make sure we have high standards and protect our customers against cyber crime.”*

The current regulation requires a trustee bank account between Luno and the customer. The customer then deposits their fiat currency in the trustee account, which is closely regulated by SC and BNM itself.

On the 27th of February 2018, Bank Negara Malaysia (BNM) issued a policy titled “Anti Money Laundering and Counter Financing of Terrorism (AML/CFT) - Digital Currencies” to ensure the effectiveness of control mechanisms against money laundering and terrorism financing risks, as well as to improve digital currencies transparency from a Malaysian standpoint. However, Arif stresses that it is important that we look at these regulations in a novel view.

We then questioned Arif about potential regulatory reforms, like the travel rule. Essentially, the travel rule facilitates the exchange of customer information between virtual asset services providers (VASPs) to securely share cryptocurrency transaction information with other vetted VASPs. Currently, Luno Singapore is one of the participants of Singapore Tenet — an environment created for special customers to provide travel-rule-transfer. Arif opined that if Malaysia were to implement the travel rule as well, Luno is well prepared for it. This is because even prior to being regulated, Luno had adopted and maintained the highest standards of Know Your Customer (KYC) and Anti Money Laundering (AML) compliance.

*“This rule will definitely promote accountability in the cryptocurrency industry”, says Arif.*

From Malaysia's legal point of view, all currencies and tokens are considered as securities. Are there any other forms of legislation that can make the market perform more credibly? The aforementioned travel rule is definitely a good example, and Arif approves. However, should cryptocurrency then be regulated under a new independent act? Arif thinks otherwise. His reason being that the SC has done a sufficient job in terms of regulating cryptocurrencies. If more entities and government bodies were to be involved, there would be an increased need for higher coordination, communication and legislation. He believes that regulators will bear additional burden when there are more parties involved.

## **The Potential of Cryptocurrency**

*“When something can be interpreted, it can always be interpreted in various paths.”*

Arif emphasised that cryptocurrency is more than just a form of investment. There are around 5100 cryptocurrencies out there and they each serve a different purpose. The

utilisation of cryptocurrency depends on the user. Some countries use it as a tradable security while other countries like El Salvador, have become the first country in the world to officially classify Bitcoin as a legal currency.

*“It is important to realise that because crypto is just used for one purpose today, it doesn't mean it will not be used for something else in the future.”*

Today, Bitcoin is also known as a “digital coin”, due to its similarity to gold, where it can be a store of value and acts as a hedge against inflation. There is so much more to be explored when it comes to cryptocurrency as its true potential remains untapped.

*“There is a demand in the space and it shows that hopefully it will become more mainstream. Despite people saying Bitcoin will die, it has lived for 11 years so far. It doesn't necessarily have to replace fiat currency, especially in Malaysia, it can actually co-exist. It's all positive things we are seeing so far in terms of industry.”*

### **Dear Investors**

*“Even people who are financially literate don't make the best decisions.”*

Arif highlighted that there are many factors in play when it comes to investing and we have to be an informed investor before making any decisions. In the current landscape, we are spoiled with choices as there are tonnes of investment instruments. Furthermore, commission-free apps such as Robinhood exacerbate the gamification of investing, which can be very dangerous especially for new and inexperienced investors.

At some point in our lives, we will definitely invest a portion of our wealth. Therefore, it is very important to be financially literate so that we can make more informed decisions when it comes to investing. For further information, Arif recommends the resources linked below, happy reading!

Journalists: Bryan Ng, Cheong Hien, Cheam Yean Quen

Reviewers: Sara Yow, Hurriya Irfan

Editor: Nadiah Mohd Sobri

Links to Arif's recommended sources:

Burniske, C and Tatar, J. [2017]. *Cryptoassets : The Innovative Investor's Guide to Bitcoin and Beyond*. [book]. McGraw-Hill.

Available to order at: <<https://malaysia.kinokuniya.com/bw/9781260026672>> for RM 138.86

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<<https://store.coingecko.com/collections/frontpage/products/how-to-bitcoin-book>> for US\$14.99