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TRANSCRIPT OF PROCEEDINGS

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AUSTRALIAN TAXATION OFFICE

RECORD OF INTERVIEW

INTERVIEWER: **DES McMASTER**
 MARINA DOLEVSKI
 HOA DOA

INTERVIEWEE: **CRAIG WRIGHT**
 JOHN CHESTER
 ANDREW SOMMER

CONDUCTED AT: **SYDNEY**

DATE: **TUESDAY, 18 FEBRUARY 2014**

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Interview conducted with Craig WRIGHT

On the 18th February 2014

Sydney

Interviewers: Des McMaster, Marina Dolevski, Hoa Doa

- 5 Sommer Okay, well, if everyone's happy, I really wanted to sort of – I know you've had a number of different discussions and I really wanted to sort of make this as productive as possible for everybody's time so I thought I would put as much as I can up on the slides and at least that way we've got a process for
- 10 discussing things. The agenda that John sent through to Marina yesterday afternoon, basically, I thought it would be useful just to highlight some of our current issues, go through quickly the history of development, our current state, vis a vis audits, the relevance of bitcoin treatment which I think is critical to where we are and what's going on; looking at current transactions, both –
- 15 at a high level. So what I would like to do is agree, the in-principle treatment of various types of transactions and then – you know, it is undoubted that there is going to have to be revisions for the BASs that are lodged so a lot of the process and a lot of the grinding of wheels that's going on at the moment is information requests and stuff about BASs that have been lodged and
- 20 simply they've got to be changed anyway. So we're spending a lot of energy worrying about BASs that, on the Tax Office's view of the law, are wrong and so therefore we need to change those BASs anyway. So if we can agree a process for actually the way in which those BASs should be filed what I would like to do is then have someone from a fresh team sit down with John and
- 25 rebuild the BAS, so somebody from within the Tax Office who understands the way we've agreed the way that these transactions should be done sit down with John - it's only a hundred lines of transactions, rebuild the relevant BASs and resubmit them on the basis of – on an agreed basis so we can actually do something else without going - - -
- 30 Dolevski So if I just understand that correctly, Andrew - - -
- Sommer Yep.
- Dolevski So just basically on the tax view, which is outlined in the private binding rulings you're saying - - -
- Sommer Being singular, but we will get to that, yep.
- 35 Dolevski Yep. So you're saying that the BASs – you're accepting that the current BASs lodged are obviously not in line with the rulings and the ATO view so you're proposing - - -
- Sommer I don't think that's controversial, is it?
- Dolevski No.
- 40 Sommer No.
- Dolevski No.
- Sommer Okay. Yep.
- Dolevski No, just wanting to clarify.
- Sommer Yep
- 45 Dolevski And therefore, based on that, you would be – you're proposing to revise the BAS, the BASs that have already been lodged?

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5 Sommer If we can reach an agreed treatment about the way in which things need to be done, yeah, sure, let's just move on. Do we think bitcoin is money? Yes. Can I stand here for four hours and argue with the three of you that I think bitcoin is money and, you know, it passes the test established by Emmett at Travelex, the landmark case referred to in the ruling of facility and all that sort of – the landfill case facility. Yeah, I can do all that but that's not going to progress the issue and I want to get these guys back to doing business and we can have the esoteric discussion about the nature of bitcoin and whether or not it's money later but let's free up this process because it's drowning them in unproductive wheel-grinding, constantly frustrating on both sides and I would like today to break that cycle.

10 Dolevski So rather than having the changes made from a compliance perspective it would just be a revision of BAS that you would want some assistance?

Sommer Yes.

15 Dolevski Is that right? Yep.

Sommer I think that - - -

Chester And rather than us something and resubmitting it, let's just sit down and let's go, "Okay, tick, tick, tick, tick, done" and we can go, "That looks good. That's good. Fine. We're done". I think, as Andrew said, there's not many – it's not like there's thousands of transactions out there. There's none.

20 Dolevski No, no. They're the first quarter BASs that were lodged.

Sommer Yeah. That's right.

Dolevski And there's a couple – I think there's one that's a post issue.

Sommer Yep.

25 McMaster There are a couple of post issues.

Dolevski That have gone through.

Sommer Yep. And we will get to that.

McMaster Yeah.

Dolevski Yeah.

30 Sommer Okay. So a simple without prejudice meeting intended to resolve the issues that can be resolved, narrow the scope of issues that are under review and focus on the areas in which we can agree rather than issues of general grievance I think, you know. I get the impression from having looked at some of the stuff that there's a bit of frustration in the Tax Office. I don't know from talking to my clients if there's a bit of frustration on our side. You know, let's just put all that to one side and try and work on those things that we can agree on and move this along. The current issues: we've got formal notices regarding retention of refunds. We've got a multiplicity of audits. We've got the issue for these guys being cash flow as a new business. We're really struggling from a cash flow perspective and also from a resources perspective. We need to sort of for the guys to do it. Now, the retention of refunds is troubling because the current – we don't have any revised assessments yet and just from a process perspective a number of the documents that have been issued I think are wrong as a matter of law and we need to sort of tighten that process up. So these are notices issued to Hotwire, Coin Exchange, Cloudcroft whereby – and I will show you an extract in a minute – whereby the decision to retain the refund is based on an

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5 interpretation of the law rather than the pending verification of information. Now, section 8AALZGA entitles you to retain a refund in certain circumstances pending verification of information. It doesn't entitle you to retain a refund without issuing an amended assessment in instances where you just happen to the law. Now, you can go away and have a look at that. The notices that were issued purports to give the taxpayer an objection right.

Dolevski An objection right?

Sommer Against the - - -

10 Dolevski It's retaining.

Sommer Yeah.

Dolevski Yeah.

Sommer Now, the only – my only understanding is that you get – we hadn't looked into AALZGA objection process in relation to that decision doesn't apply generally and so even the decision to withhold it under that section because there's no information verification referred to or it's not something else so it's just one of those process issues that I think needs to be cleaned up and it's a relatively new section. And certainly some of the and some of the other notices refer to specific bits of information but the ones to Coin Exchange, Hotwire and Cloudcroft don't.

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20 Dolevski The actual retention and the notice - - -

Sommer Yeah. So we've got a bit of a problem there because we haven't got anything we can object to. Now, I don't want to go down the objection and appeals path because it's too slow and, as I say, if we can agree a basis, excellent, we don't have to worry about it.

25 Dolevski Well, the objection to hold isn't going to give you any technical clarity on the issue itself.

Sommer No. Look, it's a bit - - -

Dolevski There's just – yeah. But, I mean - - -

30 Sommer It's a bit of a silly provision and I don't know why we put it in there in the first place. But we haven't got - - -

Dolevski But in terms of us speeding the assessments, I mean, we're ready to go with the imposition papers that were issued.

Sommer Yeah. No, no, but that's an interim What I'm saying is - - -

35 Dolevski We can get to final quite quickly.

Sommer Yeah. Well, you probably shouldn't, on the basis of what they say, but the problem is the guys have got nothing to object against. They've got notices and they keep saying to me, "I've got this letter from the Tax Office that says I have an objection right" and I'm saying actually you don't have an objection right. There is nothing you can object to at the moment". There isn't. The assessment that was made when the return was lodged, the deemed self-assessment, is in accordance with their duty and there's nothing to which they can object.

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Dolevski Well, we would say that under 8AAZLGA that that gives us the right to hold, under - - -

45 Sommer For what purpose?

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Dolevski For us to substantiate that the refund is in fact valid.

Sommer I don't think it really says that.

Dolevski Well, I don't have the Act – we don't actually have it there - - -

Doa No, I've got the GST - - -

5 McMaster What Marina is saying is the commonly-held view within the office, okay, and has been since the legislation came into being - you do have rights of objection on the private binding rulings which would go to the heart of issue.

Sommer Yes, but not – true, but not for where there's an assessment that has been issued and our assessment doesn't line up with the private ruling and the private ruling was only issued on 23 September – December, I think.

10 McMaster Yeah.

Sommer So – anyway. Have a look at 8AALZGA.

Wright And the private ruling didn't actually align. It was a totally separate thing to the companies, anyway, because it was unrelated and never was related, which was informed right back to the beginning, before Selso even came on.

15 McMaster Okay.

Dolevski So - - -

Wright So that private ruling had nothing to do with any of the other transactions.

Dolevski So under those provisions the Commissioner may retain an amount and we go through and address all of the 10 factors under - - -

20 Sommer Yep. And which one of them says because you formed a different view of the law?

Dolevski So we say – so the first one, "The Commissioner may retain an amount that he or she otherwise would have to refund to an entity if the entity has given the Commissioner notification that affects or may affect the amount". Sorry, I haven't gone into this - - -

25 Sommer Yep. Anyway, I don't want to get tied up on that today. You guys have a look at it.

Dolevski Yep.

30 Sommer But I don't think those notices as they are issued to Cloudcroft Coin Exchange - - -

Dolevski I will check them.

Sommer - - - and Hotwire - - -

Dolevski So you're saying only three of them are defective as far as you're concerned?

35 Sommer Yep. Yep, those three.

Dolevski And the others, we've actually got it right?

Sommer Yep. Well, the others - - -

Dolevski We need to check what letters - - -

McMaster I think they would have been identical letters.

40 Dolevski That's right.

Sommer I can check.

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McMaster Okay. I will double check. That's okay.

Sommer Yep. That's okay.

Dolevski Unless we've used incorrect letters. I don't know - - -

McMaster I would be surprised but I will double check.

5 Dolevski Yep. All right.

Sommer Okay. So - - -

Wright There were three different people issued the three different initial letters and then Selso issued subsequent different ones.

Sommer Yeah.

10 McMaster The initial ones would have been the retention of refund letter which would have come from, highly likely, the Refund Integrity Team. The subsequent ones that Selso would have issued would be providing you with the objection rights to the decision to withhold because it met the various requirements of timeframes.

15 Sommer Yep.

Dolevski But we will look into that.

McMaster Yep.

Sommer Good. Okay. So the objective is to try and free up the cash flow and try and free up the resources so we can get all these issues rather than

20 continually dealing with various ongoing issues. So just to sort of – for those players who are new to it, I thought it was useful just to quickly walk through the chronology of where we got to, or how we got to here. In 2009 the mining of bitcoin commences. There's audit and ensuing disputes with the Tax Office regarding information defence and Dr Wright personally back in 2009 and that dragged on for a couple of years. 2011, bitcoin was transferred overseas.

25 R and D then conducted in the US under – by a joint venture company formed as effectively info defence research LOC. Bitcoin mining continues throughout 2011. The bitcoins are derived by companies in Singapore and the Seychelles or entities in Singapore and the Seychelles, and they're

30 actually trusts. Trustee companies and trusts established - or trustee companies in the United Kingdom and other trusts established in the Seychelles. Further work was planned. In early April 2013 unfortunately David dies in the US towards the end of April 2013. In July we have the MJF transactions which are germane to the returns that are being looked at

35 currently. They involve software services and and in July discussions commenced between – with the Tax Office about the nature of bitcoin. September, following the death of David in the US, there was a transfer of intellectual property out of a US entity to Dr Wright pursuant to orders granted in the New South Wales Supreme Court. Those orders in the New South

40 Wales Supreme Court substantiated value of the claims being made for that intellectual property in the amounts shown there, roughly 28 million a piece. 2013, September, intellectual property that had been acquired by Dr Wright from WK Info Defence is on-supplied to the Wright Family Trust and then broken up and transferred to other group entities, Hotwire, Coin Exchange

45 and so on. 2013, December, 23 December, while I was having Christmas with my family, private ruling issued on the nature of bitcoin and January 2014 we got the retention refund notices and so on. And that's how we got to – all right. So these are the entities that I think are the key players in these transactions. So we've got the UK companies; we've got Singaporean

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5 companies; we've got Seychelles, so they're all on the outside of the dotted line. We've got Craig which we've referred to with the as CSW is the trustee of the Wright Family Trust. We've got Hotwire PE, Coin Exchange, Cloudcroft, Strasan, Denariuz and if you look at it audit, audit, audit, refund to and audit. So we're busy, and this is my point, that we're stretched in terms of our resources to answer these questions at the moment and it would be nice if we could wrap this up and get these audits sorted. So we've got copies of all those notices. I don't think anyone's worried about it but those are effectively the current drain on our compliance resources to deal with all these questions. Okay. This is the refund retention letter that I was referring to in relation to – this one's the Cloudcroft one and letters in the same form were issued to Hotwire and Coin Exchange. A couple of issues. One is, "We've decided retaining a refund for the following reasons: we are maintaining our interim position with treating the transfer of bitcoin to pay for your acquisitions in accordance with" etcetera. So it doesn't refer to any clarification of information.

10 Dolevski So that's our objection letter.

Sommer That's the objection letter, yeah.

Dolevski Yeah, but that's not the retention letter.

20 Sommer Yeah, but this is saying – it also says, "How to object, and your objection", right?

Dolevski Yep.

Sommer Absent the mechanism provided by 8AALZGA how can I object to that notice?

Dolevski Why would you say "absent to 8AAALZGA"?

25 Sommer Well, if the only – if you're – the reason you've decided to retain my refund - - -

Dolevski Is to verify - - -

Sommer No, no, it doesn't say verify, and we're just maintaining our view about the treatment of bitcoin.

Dolevski So - - -

30 McMaster No, no. The reason that that objection letter has gone out is simply that we have exceeded the 75 days with the information held in the office and at that point in time there is a right to review the decision to retain the refund.

Dolevski Retain. That's right.

McMaster Within the office.

35 Sommer I agree. I agree with that.

Dolevski So the objection - - -

McMaster The other part is actually irrelevant for the purpose of what we're looking at.

Sommer Well, the indication of a decision – well, that says to me that, "We have decided to retain your refund for the following reasons. We have a view of the law" and that bullet point is a view of the law, okay? I don't know how to object to that.

40 Mr And the other problem is the private ruling was never issued - - -

Sommer Well, I will get to that. So I've got two problems with it. One is that that decision to maintain – to retain the refund because of a view of the law is not a decision 8AALZGA, okay? The problem was that 30 – the other

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5 problem is that 30 September 2013 ruling was never received. It was never issued by the Tax Office and it was never received by the taxpayer. Even if it had been, we've got a letter from Mr Walmsley dated 15 October 2013 specifically saying that he – oops, sorry – that we weren't going to be getting that ruling. So it says in that highlighted paragraph, "However, any" – you know, "You may have got this ruling" in the first para. "I understand that you have been told that a private ruling has issued or is about to issue on the questions you have asked but that is not correct". The final sentence there, "However, any private ruling made on the basis of the existing application would be either invalid or worthless so the obtaining of additional information is unavoidable". So both the – the notice refers to a ruling that was never issued and even if it had been issued it was – we got subsequent correspondence saying it was invalid or worthless in the Tax Office's view. That - - -

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15 Wright And the actual ruling was actually created in November and backdated.
Sommer So that being – even as recently as last Friday we've got the interim report still making reference to this private ruling that was never issued to us and even if it had been issued to us it was declared by Mr Walmsley that it would be invalid or worthless. So I'm – it's just – there seems to be a bit of a - - -

20 Wright I had the particular authorisation number investigated. I have – I know people in the ATO because I've been training for years and that was actually issued on 29 November as a backdated internally.
McMaster Who provided that to you?
Dolevski To who, worry?

25 McMaster To you, Craig.
Wright No one I will be saying until we go to court.
McMaster So you've approached a personal contact in the office and obtained information?
Wright No. I went to Internal Fraud and Investigations.

30 McMaster Okay.
Sommer In any event – let's leave - - -
McMaster Well, no, that's very important because you shouldn't be doing that and whoever gave you information should not be doing that either, okay?

35 Dolevski Anyway, let's deal with this issue. So we've made reference to a ruling dated 30 September.
Wright That was never issued.
Dolevski It was never issued, and then was there something issued in December?
Sommer Yes, so there – about 23 December 2013 the private ruling was. But the important thing about that is, that was long after the first batch of BASs were submitted so it's a bit different getting one on 30 September and then lodging BASs on 28 October that are different to the one in which a private ruling was issued, which is the imputation that that carries, versus getting one two months after you've lodged the first quarter's BASs which is the way in which it seems to have happened. So I'm – it's a bit – I think there's something strange going on where that private ruling keeps popping up in references there - - -

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Dolevski Well, it's still sitting on our records.

McMaster That's why. It's on the single case management system.

Dolevski On the – that's right.

5 McMaster And it's sitting there as not withdrawn. It's sitting there as a valid PBR. Unfortunately, I don't recall seeing from Peter Walmsley - - -

Dolevski So, Andrew – sorry – that letter - - -

Sommer So that's the - - -

Dolevski That letter that you made reference to from Peter Walmsley, are you saying that it said disregard the previous, it's not accurate?

10 Sommer Well, it says, "I understand that you have been told that a private ruling has issued or is about to issue on the questions you have asked, but that is not correct". That's the first paragraph. And then even if we had got one he's saying that, "Any private ruling we made would be invalid or worthless".

Dolevski Okay.

15 Wright And the particular ruling there, if you read it, doesn't say "bitcoins"; it says "commodities".

Dolevski Okay.

Sommer So we've got some strange things going on there but that continued reference to 30 September is frustrating to the client because it was never received. However it's represented in your system, it wasn't sent to us and even if it had been sent to us we would have been instructed by Mr Walmsley's letter to ignore it.

20 Dolevski So, sorry, just that date from Peter Walmsley saying - - -

Sommer 15 October.

25 Dolevski 15 October.

Chester We even met with him Was it about that time, or shortly after that? Discussing bitcoin in general

Wright The two rulings, if you actually read the public thing or whatever else – what has happened is the one on the 23rd has been copied and backdated.

30 Mr I think – I – I - - -

Dolevski Sorry, the one on 23 December you're saying has been - - -

Wright Has been copied.

Dolevski - - - copied.

Wright And to look like it was issued before.

35 Dolevski Well, it was authored by Peter Walmsley so I'm not sure that I can - - -

McMaster Sorry, could you re-state that please, Craig? I didn't quite understand - - -

Dolevski Craig is saying that the 23 December ruling is a copy of the September ruling yet he has got a letter from Peter Walmsley saying that the 30 September ruling is inaccurate. That's the statement you're making.

40 McMaster Well, at that point in – okay. So at that point in - - -

Wright No, we've got nothing issued.

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Dolevski Is it? Sorry?

Sommer Nothing was issued so - - -

McMaster So not even the letter of 23 December?

Sommer No, no. No, no, 23 December was certainly issued. I remember this - - -

5 McMaster Okay. And it basically was verbatim of this other particular - - -

Sommer Well, we don't – we - - -

Dolevski They never received the 30 September.

Sommer We never received the 30 September ruling is my instruction.

Ms Actually, yeah.

10 McMaster I'm just trying to understand how, if you've never received it – how you know it's a copy.

Sommer I think Craig's saying that he publicly – the version that's on the public PBR - - -

McMaster Okay.

15 Sommer - - - the register on the internet is verbatim to the version of 23 December ruling that – so it seems to be the same ruling.

McMaster Okay.

Sommer We never got it – based on the edited version on the website.

McMaster But you would accept that that ruling is a valid private binding ruling?

20 Sommer Which one? 23 December?

McMaster Yes.

Sommer I'm not contesting that at all, no.

McMaster Okay.

Sommer I'm not accepting it but I'm not contesting it either.

25 McMaster And that's fair enough. And that's fair enough.

Sommer I don't accept anything that I don't have to but I'm not presently objecting to the form, content or otherwise of the 23 December ruling other than the fact that it's wrong as a matter of fact but we will get to that Okay. So treatment of bitcoin. Wherever we go with that first quarter of transactions there is nothing more fundamental to it than the way in which we're going to end up treating bitcoin in one sense because it creates all these interdependencies between the various entities and the way in which things were moved around. We've made submissions to the Tax Office regarding the fact that it's broad - the definition of money for GST purposes is broad

30 enough. For my part I think it's simpler, I think it's more certain, and I think it's more predictable to treat bitcoin like money. I think it's almost inevitable that it's going to – if it hasn't crossed the threshold we're going to have to do it and treat it like money for the purposes of it, but this isn't the forum to do that. You know, as I say, that's where I would rather devote my resources as to esoteric questions of law because that's far more interesting to me. But,

35 really, I mean, we've got three options and, you know, I've been working with friends of mine who are on the OECD and representing various countries and talking to them about bitcoin because we had nothing else to do over Christmas and, really, the world is looking at it in three different ways. One,

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5 you're treating it like a taxable barter, which is the way in which the UK initially tried to treat it and then they've recanted, bless them. I think in Europe there's an option to treat it as money but not input taxed and I think that's probably where this concept of private money which exists under European law, which is probably where the Germans are going, probably where the English will follow the Germans, and it will be effectively in our purposes not fiat currency but treated as an input tax for exempt supplier to avoid the problems that arose in the UK.

Wright The same as barter dollars.

10 Sommer Yeah, with the HCMEU of it being a taxable barter that caused everybody to get upset and they seem to be moving inexorably and you don't know what it is, but it's exempt. Under our system that's probably a little bit more complicated because of our exemption rules and I'm not entirely sure how we would make it exempt input tax if it's not money. I don't know how we're going to do that but that's and maybe one we will throw at the feet of Mr in due course. The other option is money. Now, we have – and I think with all due respect to Mr Walmsley, Mr Walmsley is coming from an income tax perspective and the income tax he sees things like income tax and he sees things in delineation between Australian currency and foreign currency which is, you know, an all-encompassing – it has either got to be issued by the Australian Government or it has got to be the currency of another country, which I think is the way in which he sees the income tax world and I think that colours the way in which the definition of "money" is being approached. But the definition of "money" for the GST purposes is very different and I think we owe to the issue to look at the GST definition of "money" rather than this notion of currency that we find in the income tax law. I say that because of the references in the private ruling and in the – what I will call interim activity audit report that make reference to the New South Wales landfill case which is a stamp duty case which is – and the payment instrument in that case was found not to be money for stamp duty purposes but it would still be within the definition of money for GST purposes because it's a promissory note which is specifically picked up. So I'm not quite sure why we're fixating on that case and saying, "Oh, see, it's not money" but it is money because that thing would have been under our law but no bitcoin. Anyway. That's a question.

35 More relevant for present purposes is where are they? How are they supplied? What are consequences of supplied? The ATO view is expressed in the private ruling that it's not property. Personally, I have the greatest difficulty accepting a proposition that bitcoin isn't property. How the Tax Office can form the view that it's not property in any form I struggle with.

40 They say it's akin to confidential information because you need the private key. Well, a private key attaches to the wallet not the bitcoin itself. The bitcoins themselves, you know, aren't confidential information. The bitcoins are different to the wallets. The bitcoins carry with them their own history of the wallets to which they've been allocated. So I just think there's real problems in the private ruling about what bitcoin are and how they work and so on.

45 There's - - -

Wright And one of the other difficulties is at the moment we're looking at doing it in a trust. We will hold that in Singapore and we will issue trust rights in Australia. A trust is – you know, unit trusts are input taxed and I will automate them. I will build the software the same as bitcoin, as a wrap-around bitcoin, and we will have a GST-free bitcoin because it's attached to a trust.

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Sommer Yeah. So I think – as far as I'm concerned the bitcoins display the characteristics of property in the sense that they can be owned, they can be transferred, and you can work out who owns them. They're functionable like money because if they're stolen, you know, they're – you know, like – much like currency. If, you know, John was to pinch the \$10 from my wallet the presumption would be that he owns that money because that's the way in which the property law acts on money and money is slightly different and bitcoins follow that path but they do the characteristics of money and we can talk elements of property but for the sake of time we will skip on. Even if we were to perceive that bitcoin isn't money, which I think is – I can – you know, we're never going to agree a treatment for the BASs on the – if I – if we for the present purposes hold the line that we think bitcoin is money. We do think bitcoin is money but we might have to go with the Tax Office view for the sake of resolving these outstanding BASs. For the purposes of a without prejudice discussion, to move things along, we could adopt a view that a bitcoin is a form of intangible property which I think probably is a better view than trying to argue that bitcoin isn't property in any form. That – again, my reason for going over all of that is that we need to work where it is, how it's applied and those sorts of things. Even if we're going to adopt your view as to it not being money, we still need to work out the operation of the nexus test in 9-25, the operation and so on in relation to bitcoin in order to get any traction or any progress at all. Mostly the bitcoin haven't been brought to Australia by Dr Wright so mostly bitcoin is subsisting in entities that exist outside of Australia. So you will recall that on those opening slides we talked about bitcoin mining commenced and then they were transferred out of Australia to other overseas entities. Mostly they have remained outside there. They are held in wallets owned by non-resident entities outside of Australia. An exception is the bitcoin brought to Australia for the purpose of the Denariuz transaction, which we will get to at the end. Now, I think, Marina, you were talking about – that there is one BAS for the second quarter. That is the one that I think has been – that is the one you're referring to, the Denariuz transaction, the Denariuz BAS that was lodged for the period ending 31.12.2013 and that contains a specific-purpose transaction which was done to demonstrate the way in which the Tax Office view of bitcoin But as far as I know that's the one that you've got in dispute with you guys.

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McMaster There was a BAS lodged prior to 30 June for a previous quarter in which a refund claim was made and released for one of the entities.

Sommer Okay.

Dolevski Yeah.

40 McMaster And I just can't remember exactly which one it is.

Sommer Okay.

Chester That was the R and D claim that was released.

Wright That wasn't GST.

Dolevski No, that was - - -

45 McMaster There was a GST.

Dolevski Panoptcrypt.

Chester Panoptcrypt.

Dolevski Yep. So 157,368 refund was issued.

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Chester Okay.

McMaster Okay. And - - -

Doa So you say they're held in wallets outside. You're saying that where the wallets are held is basically where the bitcoins are located?

5 Sommer Well, yeah, I suppose. I mean, it's like an intangible asset sitting in a trust in the sense that if the trust is a non-resident, it has got no relevant connection with Australia and it's holding an intangible asset the assumption is that the intangible asset is sitting outside of Australia. Yeah - - -

Doa So all the private keys are being held - - -

10 Sommer By the non - - -

Doa By the non-resident trust account.

Sommer True.

McMaster So how are you trading the bitcoins between the entities?

15 Sommer This is the point to which we will soon come. Current transactions. Right. In my view they seem to break down into three types of transactions. There is – what I want to do, as I said, agree a basis for transaction in principle and then All right How do we do it? Capitalisation of the seems to happen in the following way. Craig holds an interest in – sorry, Dr Wright holds an

20 interest in the offshore trust which holds the bitcoins so Craig is there holding a bitcoin and sitting overseas. Craig has an equitable interest in that trust and what seems to be happening, because there is no physical transfer of the bitcoin, is that the equitable interest in the offshore trust is transferred to the subsidiary in consideration for the issuance of shares. So they are capitalised, not with actual bitcoin because as I understand it there is no

25 transfer of the bitcoin into the vehicles and there is no movement of the bitcoin, except for the Denariuz transaction to which we will return, and Hotwire in this case – and I have to choose that as indicative of the others – receives that equitable interest in the offshore bitcoin which still sits out there and issues shares to Dr Wright in return. So the supply of shares is clearly

30 going to be taxed. Dr Wright didn't supply actual bitcoin to the company, as I understand it. Rather, Dr Wright transferred some of the equitable interest that he holds in the offshore trust to the company in consideration for the shares. The company could then call for a transfer of bitcoin to it absolutely or it could direct the offshore trust to transfer the bitcoin to a third party

35 purchaser at the company's direction. Now - - -

McMaster Excuse me

Sommer Sure.

McMaster Do you have copies of this – Marina is busy drawing

Sommer Yeah, I will give you copies afterwards if that's okay.

40 Dolevski Okay. Terrific, yep.

McMaster Excellent. Thank you.

Sommer Yeah. Des, you would be entitled to say that, "Andrew, you guys have always told us that we transferred bitcoin" and I think that's right and I think that's largely because we saw bitcoin as money and transferring balances around

45 and ledger amounts of money from one entity to another entity if it's done on paper is done on paper and is still there, kind of – it's still money moving around. It doesn't change the character of it. But once you start saying,

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5 "Okay, bitcoin is some form of non-money, it's some form of intangible rights that subsist out there" you have to then start saying, "Well, did you actually get legal title to it or did you get something less than legal title to it?" And we got – the problem is Dr Wright does not hold the legal title to those bitcoin. They sit in the trust sitting in the UK or the Seychelles or in Singapore or wherever and so he couldn't transfer the actual bitcoin into the entities. The rights that were transferred were the right to call for that bitcoin in accordance with the existing trust arrangements that are there.

10 McMaster So Dr Wright would have the appropriate agreements etcetera with these entities that are overseas?

Sommer I think they're – with the entities that overseas, absolutely.

McMaster Because this is the first time - - -

Sommer Yeah. No, I - - -

McMaster - - - I've heard of the overseas trusts.

15 Wright Okay. Well - - -

McMaster I suspect it's probably the first time Michael Hardy would have heard of these.

Sommer I don't think so, no. I - - -

Wright Yeah, it was emailed to Michael and it was emailed to the people before Michael on 17 July.

20 Sommer Okay.

Wright We have those emails where I communicated

McMaster Well, that would be nice to get hold of because I've not seen those emails.

Sommer I understand all of that and I understand that unfortunately – because – I think the problem is because everybody has been around the bitcoin issue rather than tackling the bitcoin issue everything has become fragmented and so what I'm desperately trying to do with all this is to try and put it all together because I can't understand it until it's in a cohesive framework, which means I can't communicate it to you guys until it's in a cohesive framework, and I'm trying to put this in a way that I – I have come to terms with what seems to be happening. I am totally conscious of the fact that some of this information and some of the way in which we're looking at this is different and it's because changing that – pulling out that peg of bitcoin as money and saying, "All right, well, it's not money" fundamentally changes the way in which a lot of this is seen from a legal perspective. And, as I said, I'm – you know, if we, you know, had a million years to resolve this, which Craig tells me I don't, I could happily with, you know, as many people from the Tax Office as possible and we could debate and go and get declaratory relief and all that sort of stuff, and that's stuff we will have to do if we can't reach some sort of agreement. But I would – I owe it to my client to say, "Look, there is a way through this where we can agree a treatment with the Tax Office while we work on the treatment of bitcoin". Now, the treatment of bitcoin is really, really important because without it our business model doesn't work, but that's a business problem, that's not a tax-compliance problem. I'm here to try and solve the tax-compliance problem in the short term and then we can, you know, have agents dancing on pinheads for the purposes of working out the definition of "money" later. Right. Again, purchased by the Australian companies of third party suppliers in Australia. So if we have a supply of goods and services in Australia from an Australian supplier, the box in the bottom right, to the

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5 companies – Hotwire again used as indicative – what seems to be happening – and, you know, we can go through the documentation with this – is that there is the supply that takes place here; there is no transfer of bitcoin out of Hotwire because Hotwire aint got none. What it does is it says to the Australian supplier, "I will grant you a right which you can exercise against the offshore trust to have them transfer bitcoin to you in satisfaction of my interest in the trust". It's something different to the intragroup transactions so as you go here, see what there is from Craig to Hotwire, is a supply of the interest in the overseas trust. I don't think there's any intention to have the Australian supplier a beneficiary of that but what it's doing is saying, "I will nominate you as the person to receive bitcoin in satisfaction of my interest in the trust" and the offshore trust then, you know, does what needs to be done in order to transfer the bitcoin out of the trust and at the direction of the Australian supplier. Whether it goes to the Australian supplier there's whatever, you know, is a whole other question.

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McMaster By "Aus supply" do you mean a related entity or a totally unrelated - - -

Sommer No, no, no. So these are third-party suppliers.

McMaster Okay. So the only one that I'm reasonably certain of is MJF at the moment.

Sommer MJF is the one - - -

20 McMaster The prime one, obviously.

Sommer The prime one, yeah. So - - -

Wright Some of the others - - -

Sommer Again, I'm trying to set up a framework for understanding when we do this - - -

McMaster Sure. Sure. I understand.

25 Sommer If we ever do this again. But, yeah, MJF is the principal one that we're worried about for the purposes of the outstanding BASs.

McMaster Okay.

Sommer Supplied by the Australian supplier will be a taxable supply payable. A supply by the undertaking of is not a supply of bitcoin because they aint got any but there's a supply of right and supply is a right for use outside of Australia, the enforcement of transfer of bitcoin in accordance with agreement. Supply of that right is probably GST free on the basis of section 38-190 item 4, you know, supply in relation to rights for use outside of Australia, much like Travelex and so on. So that's where we would see that going. Again,

30 purchased by an Australian company and the third-party supply is from an offshore supplier. Again, very similar other than we have, you know, possibly – whether or not the supplier is connected with Australia is another approach under section 9-555 and all those sort of things – again, there is supply of a right as against the offshore trust by the Australian company to the offshore supplier so again, you know, 38-190 item 4 or even 38-190 item 2(b) as well in relation to the GST-free treatment of a supply of that right.

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Wright And the IP ID which is location information assigned to an IP address, for the date of the supply is matching all the emails to do with the transfers etcetera is – matches Doncaster, UK where the entity that manages the trust happens to be sitting.

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Sommer So - - -

Wright As are the dates and it's public information that can't be changed

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Sommer So they're the different ways. So the outstanding – a number of BASs that have been lodged by the various entities, they're held up and all that numerous variables which start to go crazy. But if you look at Hotwire when it was lodged, right – so the basis underpinning the lodgement of the Hotwire was that there was an issue of shares; there was a transfer of bitcoin but there was software coming from the Wright Family Trust in the far left of the screen; there were transactions with Coin Exchange and Panoptcrypt. There are also some other little transactions that are immaterial and admitted for the purposes of the diagram. I think – and, you know, I wasn't involved in the original lodgement and I'm coming to it with reasonably fresh eyes and going through the legal arrangements and so on. This is the way I see it, that there's – at the top of the screen you see the capitalisation transaction that we have looked at and then you have a range of intragroup supplies across the bottom, Panoptcrypt , Coin Exchange and the Wright Family Trust where there is a transfer of the equitable interest in the offshore trusts made in consideration for various supplies being made in and out of Hotwire. Within the group, as Des is saying, there is a transfer of the equitable interests. That's not intended to be the case for MJF Mining Services. I think we've all had enough to do with Mark Ferrier that we don't want to provide him with any equitable interests in anything and so he got the right to have bitcoin transferred out of the offshore trust, which is what in fact happened but it was transferred to him in satisfaction of the invoices that were issued. So that's the way I would see it working, that there are a whole lot of supplies being made between the related entities in consideration for basically rebalancing the ledger of the equitable interests held in those Seychelles' trusts, for example, so that, you know, there's very little that actually moves. It just depends at which point who is entitled to how much of the interest in the bitcoin sitting in the Seychelles. As regards third parties there is in fact a physical transfer of bitcoin out of those trusts to those third-party suppliers where there is, you know, something real happening. Now, that something real that happens does not seem to have a relevant connection with Australia in the sense that things are moving out of the Seychelles' trusts to, you know, the wallets designated by the relevant contractual counter party. There's nothing that touches Australia. The only thing that happens in Australia is the grant of that right to have the bitcoin transferred out of the trust. Bitcoin didn't move, except in relation to the AI Baraka transactions and the MJF transactions. The capitalisation were covered. Intragroup payments are affected by the transfer of equitable interests in the offshore trust and Dr Wright acted as agent of Hotwire in negotiating the AI Baraka transaction which is, "Andrew, that's all very well but show me the proof" which we will come to in a minute. As such, no acquisition supply by Dr Wright or the Wright Family Trust in relation to the AI Baraka software and that is different to the way in which the BAS was lodged. There was an assumption I think that there was an acquisition and a supply. Having looked at the agreement there and the parties, I don't think that's right. So I think that, really, Dr Wright personally was in there as the negotiating party on behalf of the end recipients and that seems to be the clear agreement between the parties, that Hotwire PE is acting through its agent, Craig Wright, R and D. Craig Wright is authorised to represent Hotwire, etcetera, etcetera. So the contractual – the interpretation of that as a matter of law, when I come to have a look at that agreement, says there's an agreement between the contracting parties and there are agents in there acting on their behalf.

Wright If I can just show you something. This is Mr Ferrier you can take it down and copy it later. You will notice the dates. It's a Telstra thing. I don't have

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any access to the Telstra systems. 1 June 2013 we talked about the contract which is

Dolevski I think we've got that anyway.

Wright This is an email. This is - - -

5 Dolevski Have you been – have you sent

Wright You probably have it.

McMaster There was an image of - - -

Doa Yeah. I thought - - -

McMaster I think you've sent that image to Michael Harding.

10 Wright I have, yes.

Doa Yeah. Yep.

McMaster And Michael has provided that to us.

Doa Yep.

Wright Okay. I didn't know if you had or not.

15 McMaster No, that's okay, because we've asked Michael to give us everything - - -

Wright Because - - -

McMaster So that we can form an appropriate opinion.

Wright What happened was the day before sort of everything else we did the contract exchange but I formed the company the day after, so we had an agreement that I would form this company, which I then did, but – so I was acting for a company I was going to form, which was sort of out there but not out there, if that makes sense.

20 McMaster A slight timing difference.

Doa Yep.

25 Wright Yes. But the idea was to bring it into the company, so to speak.

McMaster I remember reading this and I formed the same view as you, Andrew, that the thing that sort of still sticks with me is the contracting so obviously there must have been some contact between them and Al Baraka.

Sommer One would imagine.

30 McMaster But - - -

Sommer I don't know. My Saudi Islamic law is not so good so - - -

McMaster No. Better than mine.

Sommer So I think that's the way I see that, and then I see no acquisition, no taxable supply by the Wright Family Trust into Hotwire or other stuff, so there are other transactions. Remember there's the IP coming out of WK Info Defence in the US came to Craig through Craig to the Wright Family Trust and then from the Wright Family Trust into Hotwire in consideration of the transfer of the interest in the offshore bitcoin trust so I think that filtered through. There's lots of reasons I understand that took place and that is that there – you know, the combined 56 million worth of IP that came out of WK Info Defence was then broken up by Craig and put into different entities that were going to need the

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- different bits. That's the way I'm instructed that that happened and that seems
- - -
- 5 Wright I wasn't intending to make it messy. It was just trying – I had a big pool of
stuff and I wanted to split it into each of the things that we're doing, each of
the bits, so that - - -
- Sommer Messy was a by-product rather than an objective. That's good.
- Chester
- Wright But you will be happy to know I agreed that I don't touch any of these things
ever again and Andrew and John and
- 10 Chester But one thing they were broken up for is – it wasn't just convenience; it's that
there was differential IP for – one was for security and it was all security-
based stuff. That went into the security entity and the stuff that was learning,
that went into the learning environment. There was – so each of those
15 different things was – it was – it was – they were sectioned out based on
content rather than, "Oh, let's throw some of that over here and some of that
over there". That was the idea, put them where they were going to be used.
- Sommer So at this point we're really saying, "I can understand how this all got a little bit
out of – confused between auditors" and Craig, you know quick
responses and so it's very easy to misunderstand what's going on.
- 20 McMaster Got a habit of too much.
- Sommer It's very confusing. It has got to be done and try and put it in some sort of
cohesive framework so if you've got any questions about that framework as
we go, please let me know.
- 25 Dolevski I think the fundamental difference in our understanding is that we actually
thought bitcoins were being
- Sommer Me too, until recently.
- Dolevski Whereas an interest now in bitcoins via a trust.
- Sommer It was when I had a conversation with Dr Wright where he said that nothing
has even moved because – and I've got - - -
- 30 Wright Apart from the external stuff.
- Sommer Apart from the external stuff and then it's just, like, "Okay, look" – I then
literally at that point – I went back – had to go back to the drawing board and
reconstruct all the diagrams because until then I had, like you, assumed – and
35 Des has assumed and we've probably, you know, caused you to believe that
bitcoin had been moving around. But it seems that part from the Denarius
transaction, which is different, we will get to that, nothing seems to have
moved and so therefore we are dealing in subsidiary interests in these things
that remain and that in one sense is consistent with the way in which it has
40 been done, that it's effectively ledger entries in the equitable – moving around
an equitable interest rather than actually conducting the transfers. Okay.
Which then brings us to the - - -
- Wright Just as an aside now I was going to say from all of that my assumption is that
it's money.
- Sommer Yeah.
- 45 Wright So therefore if I treat it as money then it's how I move it so - - -
- Sommer Yeah.

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- Wright I just assumed that - - -
- Dolevski I have to say it took me a while to get my head around bitcoins and them moving so you can imagine where I'm at at the moment.
- Sommer Yeah. See – no, you – this
- 5 Dolevski Which from an audit perspective of is – we were kind of having discussions about what's your starting point, your stops and blows, which is why we thought in your particular entity as a sole trader we would have to actually – or start from a point of how many do you own. We thought yes, you've picked up some bitcoin ownership from the deceased director so we were trying to, you know, get the picture and connect all the dots.
- 10 Wright and buckets.
- Dolevski That's right, you know, but now I - - -
- Wright Yeah. After the first instance I moved everything offshore just because – well - - -
- 15 Dolevski Well, I'm kind of now starting – if the trust actually is even offshore and it's all paper transaction what's the fundamental reason that you're moving around interests, really?
- Sommer Oh, well, to pay for stuff. It's not an unusual – I mean, if you think about a large corporate group that has got a single bank account you have a ledger of the transactions when those – you know, for intragroup transactions. You know, one may rent property to another and the payment is on a ledger but no money actually leaves the account.
- 20 Dolevski I know. There's actually no movement.
- Sommer That's exactly right, and that happens all the time. It's just – and that's why I think there was – these things were documented in the way they were documented because, really, it was just a ledger interest between effectively related parties.
- 25 Wright And - - -
- Sommer And moving around those subsidiary interests of the offshore trusts so it's – I think of it much like that corporate group with a single bank account. No money is moving but payment of consideration is clearly made; just at any one point which company – the extent of each company's interest in that agglomerated bank account is then – can only be by going through their individual accounting records so - - -
- 30 Wright It was never the intention to make it more complex but when I spoke to you guys in July last year I said this is what I want to do and I was told I had to account for all these separately. I said, "Why can't I just record there" and I got sort of a blank look and – like I was the anti-Christ.
- Sommer Yeah - - -
- 40 Dolevski Well, we have to consider it separately because when you're moving it in different entities - - -
- Wright Because they're – of course. They're separate, yes.
- Dolevski Every entity is a taxpayer so we have to separate it that way.
- Sommer Yeah.
- 45 Wright And they have different shareholders. Not every company has - - -

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Dolevski But, I mean, even the private binding ruling is based on bitcoins.

Wright Yeah.

Dolevski Certainly not on interest.

5 Wright And the other issue is each of the companies has different shareholdings. Hotwire has other shareholders; Coin Ex has other shareholders. It's not just me in any of these so – I mean, that was the other thing when I was talking to people because what I've moved into Hotwire has nothing to do with any of the other companies so if for instance someone who has shares in Denariuz can't then claim against Hotwire or vice versa because I'm not the only shareholder. I might be the major shareholder in everything but I'm not the only one.

10 Sommer Yeah. So that seems to be how all that has happened so – in terms of the transfer of those subsidiary interests because nothing seems to have moved. I mean, if nothing has moved I need to be able to tell you guys what it was that has moved. It seems to me that there's trusts, that there's an equitable interest in the trust, that the idea was that each of those persons could call directly for the transfer to them absolutely. As you see – you will see that they've effected payment by instructing that trust to make payment to third-party contractual counter parties and so there was a transfer of a beneficial interest in – or part of a beneficial interest held by Dr Wright or held by one of the other contractual counter parties to the other group companies. You know, these group companies related companies, I suppose, is probably the I should adopt.

15 Wright I will interrupt and say the reason for the PR was on a wallet that I do hold in Australia and I've dealt with – that's the only one I hold in Australia but I haven't transferred it yet.

20 Dolevski So that has got nothing to - - -

Wright No.

Dolevski The private binding ruling on the 55,000 wallet - - -

30 Wright I still have that one.

Dolevski - - - of bitcoins has nothing to do with these transactions.

Wright No. And that didn't go through because I – the private ruling. I want to use it and that's part of where we're trying to figure out for selling the damn things in Australia versus overseas versus all the rest.

35 Sommer Yeah. So the relevance, the – our real need for clarification on the treatment of bitcoin isn't so much for some of these transactions, which are some of these transactions because they were conducted with actual bitcoins but most of those bitcoins were offshore. The Australian legal treatment of bitcoin is critical to the business model because you can't have - - -

40 Dolevski But not in respect of these group entities.

Sommer No, not in relation to – yeah, not in relation to the intragroup transactions.

Dolevski But isn't this – aren't we now talking about a trust and group of entities that's actually paying the things out of an interest in a trust - - -

Sommer Sure.

45 Dolevski - - - that owns property?

Sommer Yep.

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- Dolevski And fundamentally, if we're just talking theoretically - - -
- Sommer It could be
- Dolevski It could be anything.
- Sommer Exactly.
- 5 Dolevski And so bitcoins is really a side issue which has perhaps confused us all but not relevant to - - -
- Sommer Not relevant to the audits.
- Dolevski No.
- 10 Sommer But absolutely critical to what Dr Wright wants to do with his business because if you want to try and create a bitcoin exchange the whole liquidity and the convertibility of the currency is only going to be achieved if it's treated like money.
- Wright If - - -
- 15 Sommer The liquidity – if every time you transact, if every time I buy a bitcoin from you I have to pay you 110 per cent of its value because you've got a taxable supply then we've got a problem with the transactability of it.
- Wright Which means you will go to Singapore or the US.
- Dolevski But, Andrew, if we raise these assessments or not release the refunds and revise the BASs, say – you know, whether the interim position paper read – I mean, if we take out that paragraph about the reference to the September ruling or whatever, it will clean up our system, but – so we take that out and our bottom line is not going to change with the revised – okay?
- 20 Sommer No.
- Dolevski That's still – even if you dispute that, that's still not going to get you your technical clarity on bitcoins because we literally have to walk away from here.
- 25 Sommer We're not dealing with bitcoin.
- Dolevski We're not dealing with bitcoins here.
- Sommer Except for Denariuz, and we will get to Denariuz because Denariuz is the answer.
- 30 Wright Denariuz is – like, I did - - -
- Sommer They actually did a physical transfer of bitcoin.
- Dolevski So there has been lots of – and dare I say a lot of heated conversations amongst different people - - -
- Sommer A lot of colour movement but not a lot of progress and that's - - -
- 35 Dolevski No.
- McMaster But there was no clarity.
- Dolevski No.
- Sommer Hence why I wanted to – and that's why
- Wright I apologise for that but - - -
- 40 Sommer It's just that that's why – and I think there has been so much grinding of the wheels and that's why I really wanted to have this circuit-breaker meeting to

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actually say, "Let's just really try and put it in some sort of cohesive framework and actually understand at law what really happened" because that's why I

Dolevski Well, we're getting back to you and your facts of what has happened.

Sommer Well, that kind of helps so - - -

5 Dolevski It does.

Sommer So this is where things start to get to where we really – so all of those intragroup transactions, intra-related party transactions, whether or not they produce – you know, if they're bitcoins that are taxable then they're taxable on both sides. They're probably not taxable on both sides in the present

10 circumstances because we're dealing with subsidiary interests in offshore bitcoin rather than actual bitcoin. All of that nets out to a whole bunch of not very much. So there's rats and mice stuff where we've paid for parking and rent and photocopiers and those sorts of things. There's intragroup stuff. The real refund that the guys need is in relation to the MJF transactions. The rest

15 of it is more a spinning of the wheels. So these things are the things where we have paid GST-inclusive amounts to our supplier and they're considerable and we need those, you know, refunds to us is to try and get those refunds back so they continue funding activities in Australia. So that – that's – but this is the real pain of the retained refunds. A lot of those – you know,

20 there's 60 million here and you can flick through the BASs. They're huge numbers but most of that is a lot of, you know, intragroup circling around of stuff and - - -

Dolevski Plus

Sommer Exactly. Moving stuff around between - - -

25 Dolevski Yep.

Sommer Moving those large lumps of IP around whereas these MJF ones are the ones that, you know, I'm particularly focused on making sure - - -

Dolevski And so MJF – because obviously we can't discuss - - -

Sommer No.

30 Wright That's right.

Dolevski It's a separate taxpayer but - - -

Sommer Yep.

Dolevski So where does this connect in terms of which of Craig Wright's entities?

Sommer Okay. So this was – and that's exactly where these lines are going. So MJF

35 contracting so the tax invoice that they issued and so there's two highlighted ones there, are acquisitions by Dr Wright personally. So those acquisitions are valuation services by Ferrier for fifty five thousand or fifty thousand dollars in the top line there which – I'm sorry, you can't quite read.

Wright Can we focus that any better, do you think?

40 Sommer I will be gentle - - -

McMaster We've seen that invoice today.

Wright You should have it.

Dolevski Yeah, the one that you showed me. Yeah.

McMaster Yep.

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Sommer I will be gentle. I will be gentle. That's about the best we're going to do there.

Dolevski Yep. Yep.

McMaster Yeah.

Sommer Okay. So - - -

5 Chester And one of those is – the top one is Ferrier promising his Ian Ferrier services to as a consultant

Dolevski And we've got a copy of that.

Sommer Yeah.

McMaster Yeah, we've got - - -

10 Chester You've got all the stuff.

Dolevski Yep, yep.

McMaster Yes, we do.

Chester You've got all the stuff.

15 Sommer So this is why I say that I think some of Dr Wright's confusion related to just how these were transacted and so some of these are Dr Wright transacting on his own account; some of these are Dr Wright transacting as agent of the other entities. So these two are, as I understand it, personal transactions for Dr Wright. They relate to the valuation services because I think they couldn't – they weren't going to be allocated to any particular entity at that point, where

20 this was something to have up your sleeve, you know, if you need valuation services which, you know, in a world of intellectual property are always useful.

McMaster So was there any valuation done?

Sommer It was - - -

Wright No.

25 Sommer It's due for March 2014 so it's prepayment against future delivered services so, as I understand it, they haven't been delivered as yet. And the last one, the last line there, is gold ore.

McMaster That would have been the Payne - - -

30 Sommer The Payne gold transaction and that's clear from the last line of that tax invoice and, again, I think – sorry, when I say "I think", I'm instructed that that was a transaction that Dr Wright was doing for his own - - -

Wright And that was my trust.

Sommer That was to go into the Wright Family Trust, was it?

Wright Yes.

35 Sommer Okay. I apologise. So that the right to that gold so I will revise that – were to go into the Wright Family Trust. Okay. Then supply in 1B, so just working through that tax invoice – supply of the automation software was a supply made to Hotwire again for five – this one for \$5.5 million including GST and that's from Siemens – is that right?

40 Wright Yes.

Sommer And then it was supplied through MJF.

McMaster Sorry.

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Sommer Sorry?

McMaster What did you say? Siemens?

Sommer Siemens.

Wright Siemens.

5 Sommer S-i-e-m-e-n-s, the - - -

Wright They're a German software – or Germany everything group.

Sommer That's - - -

Wright I have that software sitting in the office at the moment.

McMaster So how did you acquire that software?

10 Wright We were given a licence key which was emailed – I believe John has got it – and a download link.

McMaster Okay. And that came from Siemens or from MJF?

Wright That came through MJF.

McMaster And it worked? Okay.

15 Wright It does

McMaster I accept what you're saying. It's just given Mark's prior history I'm a little bit surprised.

Wright We were very careful with the software. When I did the software stuff I made sure I – the payments happened as I got the software.

20 McMaster Okay.

Wright And then what happened was - - -

McMaster Wise.

Wright Yeah. And then I trusted them and the gold is a different issue.

McMaster The gold futures. Okay.

25 Chester It was the classic works, works, works, doesn't work routine, yeah.

McMaster Okay.

Wright So I kept going through and, "Wow, this is good. This is good. This is – he's disappeared".

McMaster Unfortunately.

30 Sommer Okay. And then my 1C, that's - - -

Wright Which I just made the assumption if you keep paying someone and they keep coming through they must be trustworthy.

Sommer That seems to be an acquisition by Coin Exchange through Dr Wright acting as its agent and eleven and a half million dollars plus GST. That's - - -

35 McMaster Is that the Al Baraka?

Sommer That is from Al Baraka and that's clear on the tax invoice there. In the last line of the highlighted section there it says "Dallah Al Baraka Group" so – and that's the Microfinance software so the accounting packages.

40 Chester my glasses

Sommer Okay. And then - - -

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Wright We will also admit that since everything we've spent an inordinate amount of time rather than building on our damn software at the moment going through it with a fine-tooth comb trying to make sure there's no back doors or such other such things after finding out what Mark Ferrier is actually like.

5 Sommer Yeah.

McMaster That would be a priority, I would suspect.

Sommer It's – yes.

Wright Yes. We can't go live with it until we can trust it.

Sommer It has been a disappointing contractual experience - - -

10 Wright Yes. I don't want to run something that we have 100,000 bitcoin one day and the next day, oops, it's gone.

McMaster I know there has been some issues overseas with Mount Cox.

Sommer Mount Cox.

Wright Mount Cox, yeah.

15 Sommer Yeah, Mount Cox is causing us trouble for all other sorts of reasons at the moment.

Wright Yes. The little buggers won't release my fucking money.

Sommer Acquisition by Coin Ex so this is – I think this is the second of the MJF contracting invoices and I've put this one as an acquisition by – well, I've got

20 Coin Exchange but actually there is – some of that was broken up and apportioned to the other entities as well because there's a commitment fee in there and so from an audit perspective – and this is why I think it's really important to agree the principles and then go – have someone sit down with John and rebuild everything from scratch because it seems perfectly

25 reasonable to apportion commitment fees from this one across some of the other acquisitions but it means none of the numbers line up neatly and, you know, I'm a so I like things to match up really nicely and of course they don't. So the idea is yes, some of that gets broken up and apportioned to the

30 other acquisitions included on there which is why I think one of them is 5.3 in the accounts instead of five even but I – you know, if we can agree the big issues, minor issues about the apportionment of the commitment fees

35 services and the basis on which that gets spread out, I don't think is going to be too controversial and there's certainly nothing too intellectually difficult about any of that; it's just a matter of explaining why nothing particularly lines up. Now - - -

Wright And that sort of thing, Alan program manager, has been dealing with people in Turkey at Al Baraka. It's definitely the Turkish Al Baraka website but whether they have any other dealings with Mr Ferrier I have no idea. All I

40 know is I've got this offer and I believe it's right and if they haven't – what they've done internally, I have no idea, but we have the people there and we have been dealing with the people there and I can pass all that info.

Sommer So we've got the software. We've got that line 2 there, line 3 there we've got. Line 1 is not due for performance yet. Line 4 technically isn't due for

45 performance yet but it would be fair to say that reasonable minds have suspicion as to whether or not that's going to be performed in accordance with the terms of that contract such that we've engaged litigators to secure what performance we can.

Interview Conducted with Craig WRIGHT

Wright What it looks like and what we have information from at the moment that we would be happy to hand over is there are three directors at Payne who [REDACTED] [REDACTED] Just on the first, when I signed my contract, they bought up massively. When it was depressed they issued a "everything's terrible" release. Then, when I signed my contract, on the day of, they started buying even though there was a stop order, so I don't know how they bought. So they weren't meant to be doing anything until releasing the fourth but they – whatever. And then when the final contract came through with Mark and everything like that, everyone did the – waited and then sold at really high prices and that was, like, a 300 per cent increase and they made about another 20 million that way.

5

Sommer Yeah. And that's the subject of being taken.

Chester Which we're happy to help you with if you would like to explore.

Wright And from my point of view those action – you know, if we can get someone tied into Payne then we can try and recover something there because - - -

15 Sommer That's about making sure that we get the We paid for it. It hasn't failed yet. We're a bit squeamish about it, given some of the changes in character and the disappearance with Ferrier at different banks.

Wright Again

20 Sommer And just to be clear, because Mr Ferrier – people by the name of Ferrier are, you know, scattered throughout the tax world. We're talking about a completely different Mark Ferrier to the one in charge of tax or special projects and - - -

Wright The one whose dad's a rather high-profiled - - -

25 Sommer Yep.

McMaster Yeah.

Sommer So – right. So we have got those details of the payments that were made in satisfaction of those tax invoices so 245,000 bitcoin on 30 August and 135,000 bitcoin on 15 September. Again, no bitcoin transferred directly by Dr Wright to Hotwire and Coin Exchange. Bitcoin was transferred for a trust the trustee of which I believe is the entity by the name of Limited.

30

Wright Not any more.

Sommer Not any more. Right.

Wright We changed the names of the two companies.

35 Sommer Okay. So it's the - - -

Wright To and Coin.

Sommer Right. So it's the same company, it has just got a less weird name. Yes?

Wright Now you've - - -

Sommer I'm not doubting it was designed by It's just one of those names that - - -

40 McMaster So there was a separate transfer of bitcoin to Al Baraka?

Sommer There was a transfer of bitcoin to the wallets nominated by Ferrier so he nominated wallets into which the money should be transferred. We asked for confirmation and we received confirmation from Ferrier that all the transfers had gone through and all was tickety boo.

Interview Conducted with Craig WRIGHT

McMaster Okay. So that amount up there includes the Al Baraka?

Sommer All of it.

McMaster Okay.

Wright Yeah. That was - - -

5 Sommer So - - -

McMaster And that all went to Ferrier?

Sommer Yep.

Wright My - - -

Sommer As I understand it those - - -

10 McMaster Okay.

Sommer Those amounts should line up to the totals invoiced on each one.

Wright My understanding was Mr Ferrier didn't actually want any bitcoin. He wanted the monetary value that he was going to get from these other guys for doing all the stuff, these things, so he was going - - -

15 Sommer We weren't involved in paying Ferrier.

McMaster Sure.

Sommer Whatever Ferrier got he got from Al Baraka.

McMaster Okay.

Wright All he had to do was

20 Sommer From the other people that we had paid into the wallets that were nominated by him, got confirmation we've got the software keys, got the downloads and the, you know, source code that we needed.

McMaster Exactly. So we would be able to get those wallet address, I would presume?

Sommer I've got them with but - - -

25 McMaster Later on - - -

Sommer - - - subject to – in fact, I think they've been provided but again let's try and do it in a cohesive way and - - -

McMaster Yes. That's okay.

Wright They go right back to July where I did the – these are my things and whatever

30 and I did actually tell someone but it's like everything you tell random people at the Tax Office what you're doing and - - -

Sommer Unsurprisingly - - -

Wright - - - it goes randomly into buckets of - - -

McMaster Well, there are 26-odd – well, 20,000-odd of us floating around so that could

35 easily happen.

Sommer Because of the enforcement proceedings that we are preparing in case it's not – the gold one is not performed in accordance with my litigation colleagues have all those records being dug out and - - -

McMaster Excellent.

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Wright I'm happy to share all the litigation stuff that we have, that we are chasing with, if we can actually find him again because he seems to have vanished again.

Sommer Okay. So any questions about any of that? Do you need to change - - -

5 McMaster No, it's good for another 15 minutes.

Sommer Okay. Good. This is going to make riveting listening.

McMaster Well, the Aus transcript person is going to love it.

Sommer Excellent. I always – you know, my students sometimes hate my lectures and just cannot understand why it is unless they're suffering from, you know - - -

10 McMaster Insomnia?

Sommer Sleep deprivation.

Wright I did my best to try and hide the fact that I've been running bitcoin since 2009 but I think it's getting – most – most – by the end of this I think half the world is going to bloody know.

15 Sommer Yeah, well.

McMaster So your mining would have started at Lisarow, at the server farm?

Wright Lisarow was part of it where you have the garage full of computers and the other was at Bagnu.

McMaster Okay.

20 Wright That's why we had that big fibre cabling put in and - - -

McMaster Yes, you want to speed.

Wright Yeah. And we changed the – the whole area. Like, Telstra is not going to do anything for the area. No wireless or whatever else it was – a community of 20 people so "stuff you" basically.

25 McMaster Yeah.

Wright Until we put the fibre in and suddenly ADSL and everything

Sommer Okay. So a similar situation. So we've been through Hotwire in detail.

McMaster Yep.

Sommer So a similar situation now of understanding at lodgement – a revised understanding – oops, sorry. There's twitching in my fingers. I need more caffeine. Right to have bitcoin transferred, issue of shares, essentially the same. Exactly the same pattern in relation to it. It just seems that for – as you see there, which we did and those wallet addresses, I'm instructed, were overseas and were in Africa and seemed to have been effectively at the direction of Al Baraka and our informal – our contractual arrangements were with Al Baraka and it seems that the money that went to Ferrier went to Ferrier from Al Baraka. So they collected all the money and then, "Here's your cut" and - - -

35

Wright I got told, "This is how, you know, we do it. This is how we check. This is where they go. This is what we're doing".

40 Sommer Yep.

Wright And my understanding - - -

McMaster So would that have – sorry to interrupt. Go on.

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Wright I was going to say my understanding was - somehow he got paid. He got – I don't know what his cut was or anything like this but – or even if he got paid in Australia. All I know is he supposedly got paid into a trust somewhere.

5 McMaster Okay. So the Siemens and the Al Baraka one would have went to different wallets and the personal services - - -

Wright

McMaster - - - and the gold - - -

Sommer There's a series of recipients but they don't – as I understand it they don't line up with each of those line items there.

10 McMaster Okay.

Sommer They line up – those two transfers there line up with the invoiced amounts.

McMaster Okay.

Sommer The total invoiced amounts rather than the line items.

McMaster Okay.

15 Sommer So we were – because we were told, dealing with MJF, put the money here in satisfaction of the invoice that MJF had issued to us, and we did.

McMaster Okay.

Wright I could explain it slightly differently but I think I will confuse the buggery out of everyone.

20 Sommer Is what I said right?

Wright Right at what level? Right at my level or right at - - -

McMaster Let's try our level.

Wright It's sort of right. It covers things and yes, but is it actual – exactly how the things occur?

25 Sommer Does it correctly describe the legal relationships?

Wright From a lawyer's point of view, yes.

Sommer Thank you. I will take that as endorsement. Right. So again that's just the text describing what's on the previous slide so – all that. I haven't finished this

30 one yet. Like I said, this is all a work in progress as I'm still trying to isolate the similar issues in relation to the Wright Family Trust. I think there are clearly some software transactions between it and Hotwire Coin Exchange which is effectively the proceeds of the Supreme Court, New South Wales Supreme Court action which seems to have been broken up and transferred out of the Wright Family Trust. My understanding, and we are being totally

35 frank here – it is my understanding of those proceedings that they seem to be by Dr Wright personally and may have involved Dr Wright personally getting them and then on-supplying them to the Wright Family Trust. I'm not entirely certain that's the case. I would need to get clarification from my client as to that but I think that's one of the things – but that seems to be one of the inter-related party transactions that's going to go around in loops and circles and whichever way we look at it it's probably not going to produce any net tax

40 across the different entities. Yes, one entity might end up owing something and the other one will have an offsetting credit but I'm trying to aggregate stuff as much as possible for the purposes of resolving concepts and then we can

45 try and line up

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- 5 Wright And part of the whole finalising and whatever else was my wife – now – made the comment that if I don't clean these up and get them out of the way then she doesn't marry me so – so we settled for – without going after any directors. We settled without a whole lot of other things and with the understanding that if I wanted to get married I get the bullshit out of the way.
- 10 Sommer Fair enough. Okay. Denariuz. Now, this is the only one where we've actually got an actual transfer of actual bitcoin, just to show that we actually do have them, and this is the one that was done as I understand it after the 23 December 2013 private ruling was issued to us. And the intention of the parties was to demonstrate the way in which this would operate, and I think just by aside this does demonstrate why treating it as money is a much better idea. So if you've got a sale of \$38 million worth of bitcoin from the Wright Family Trust into an Australian registered entity it then takes that and then, you know, if you've got an output tax liability in relation – from the trust, input tax credit entitlement for the Australian company who then sells the bitcoin to a non not carrying on an enterprise in Australia you've got an input tax credit entitlement in Denariuz that's not offset by any output tax liability because you've got a GST-free supplier on the way out and you've got a massive – like \$19 million is a \$1.9 million refund because you've sold half of the - - -
- 15 Wright
- 20 Sommer - - - bitcoin rather than all of it. If we had sold all of it we would have, you know, effectively a \$4 million refund due to Denariuz and no output tax liability. I just think that's inexorably the consequences of the 23 December ruling, that if you're going to treat it as a taxable supply, you know, you're going to have these very lumpy transactions that are going to give rise to a whole lot – you know, I could preach for hours on the fact that it's a consumption tax - - -
- 25 Dolevski So, Andrew - - -
- 30 Sommer - - - and there has been no consumption so - - -
- Dolevski So, so far in the Wright Family Trust only interest to the trust that actually owned or - - -
- Sommer I can only assume - - -
- Dolevski How did the bitcoins then get into the Wright Family Trust - - -
- 35 Sommer This is the - - -
- Dolevski - - - for them to be able to sell them - - -
- Sommer This is a question I haven't asked, that I – I can only assume that they called for a transfer to them absolutely of part of the interest that they hold in those trusts.
- 40 Dolevski Well, that's the part we would need substantiated for obvious reasons.
- Sommer Understood but they haven't lodged their BAS for that tax period yet and so we will no doubt get to that in due course.
- Dolevski So that will be in the January quarter?
- Sommer No, no. That will be in the December that - - -
- 45 McMaster No.
- Sommer It will be a 28 February BAS.

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- Dolevski Their quarter - - -
- Sommer 28 February.
- Dolevski Their quarterly lodges so, yeah, February.
- Sommer Yeah, yep. 28 February. 28 February BAS.
- 5 McMaster Yep.
- Sommer So, yeah, that's something that will have to be addressed shortly, included in the return that's lodged for the 31 December - - -
- Wright And the idea there was not to – just as a demonstration, yeah, and one that I think the tourist refund scheme
- 10 Dolevski Well, I mean, with those export – I mean, we – you know, that's clear legislation in terms of - - -
- Sommer I know, but - - -
- Dolevski - - - products that are exported are entitled to the ITC scheme but - - -
- Sommer It's just - my point is this: creating these lumpy supplies where there's no actual consumption where, you know, it's basically – you know, moneys are value and what we've done is move a value from one entity to another entity or a third entity where it retains its value without any consumption and you've got – the whole idea of the consumption tax is not to drag that sort of transaction into the system and by treating as something other than money, that's what we're doing. And I take entirely that, you know, that – refunds, sure. And if it was \$38 million worth of goods I wouldn't have a problem but it's \$38 million of stuff that can't be consumed - - -
- 15
- 20
- Wright But that's why I've made it a paper wallet so that it is a thing.
- McMaster But a paper wallet, if I understand it correctly, is the private key, okay, and you can - - -
- 25
- Wright That stores within it, yes.
- McMaster Okay. And so you would have stored it on a USB stick or something like that or - - -
- Wright No, no, actual paper wallet.
- 30
- McMaster - - - you physically wrote it down?
- Wright I physically made a paper wallet containing the keys.
- McMaster Okay.
- Wright And actually took that to the guys at the tourist fund scheme thing and sort of handed it over and said, "This is what it is. This is how we can validate it and here's the QR code" and they went, "What's a QR code?" And then I said, "Well, okay. If we do our phone here, and what you do is you take a photo of it so that you can check later if you can't figure it now and here's what we do" and I stepped them all through it and they called their manager and said, "What the hell is this?"
- 35
- 40
- McMaster They would have been flustered.
- Wright Yeah, and then we - - -
- McMaster Okay.

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Wright Then we did the 10 million plus bit and then we – "There's no enough digits, sir" and called over someone else and then the whole team got over there and then I held up the line for half an hour and everyone must have hated me - - -

Chester Anything just to prove a point.

5 Sommer I don't think it's – I don't - - -

McMaster Was that - - -

Sommer - - - think it's goods anyway.

McMaster Was that wallet registered anywhere, by the way? With Blockchain, for instance?

10 Wright Is it - - -

McMaster A registered wallet with Blockchain.

Wright Yes, yeah.

McMaster Because I had a look at the invoice you provided to the Customs people and unless I've mis-keyed it I can't locate it.

15 Wright You should be able to.

McMaster Yeah. It may be that I've mis-keyed it but I will have another go.

Sommer I don't think it matters in the sense that it's not goods. I don't care what you – I don't care how much paper Craig creates, it's not goods. It doesn't qualify but it was transferred between legal people.

20 McMaster Yeah

Wright That's the number down the bottom if you want to take it.

McMaster That's okay. I will go back to the invoice that you had on you at the time and if I still can't get it – and it could simply be that I'm keying it in - - -

Wright I could have typed it wrong in the invoice too because - - -

25 McMaster You could have done.

Wright A capital in the wrong place or - - -

McMaster Yeah. It's easy enough.

Wright But, yeah, the one we handed over had the correct thing.

Chester They're not like PIN numbers

30 McMaster Yeah, they are.

Dolevski No, unfortunately.

McMaster Now, we're coming to the end of recording here.

Sommer Yeah. Do you want to change it and then I will wrap up?

McMaster Yeah. I will wait till it stops first.

35 Sommer Okay.

McMaster It has got to go through its process and then we can wrap. I know, I know.

Sommer Even the CDs are bureaucratic here. Sorry.

McMaster Well, you've got to write them. What can I say?

Sommer Oh, that was recorded too.

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McMaster That's okay, Andrew. It won't be held against you.

Sommer Don't tell James I said that. Okay. So Denariuz is the first BAS to be lodged after receiving a private ruling on the bitcoin transaction blah, blah, blah, we've done all of that. Transfer the supply from Denariuz Australia to
5 Denariuz Singapore is going to be GST-free liability and all of that. Okay. So where are we? Clearly, revisions are going to be necessary to all the BASs that we've lodged. Some transactions are uncontroversial and should give rise to immediately available day-to-day transactions stuff and we intend to buy a lot of computers and we intend t buy, you know, a lot
10 of those sorts of things in order to but, you know. Day-to-day transactions we paid cash out of the entities and it's all fairly simple.

Wright We just like

Sommer Some transactions are more complicated but still give rise to the import tax credits and net input tax credits such as the MJF transactions, they need to be documented properly into the BASs. Some transactions need to be removed
15 So where some of the ways in which I think the BASs have reflected some of the transactions needs to change. So what would we want? I would like to reach an agreed position in relation to these transactions that we can then sit down and it really should only be a matter of a couple of hours to sit
20 down with someone to work through how these BASs should be re-lodged and have the Tax Office happy with them so we can say, "All right. Here's the principles. Let's apply them to these transactions". As John said, I think there's about a hundred transactions and so get them into the right BASs. Let's get them in and get them lodged and correct the issues and then we can
25 then have the agreed principles for the lodging of future BASs so we don't have to do this again. And then the third point there is to continue dialogue about the treatment of bitcoin, whether it should be treated as money, because that's not critical necessarily to the resolution of the BASs and I think subject to the discussion before we're probably happy to re-lodge the BASs on
30 that basis, on the basis that bitcoin is money but because we've been dealing with subsidiary interests, apart from Denariuz, they're minimising a number of taxable supplies that actually occurred of bitcoin but, as I say, it's critical to the business that the guys want to do that we try and convince you guys that it's money, but that's more from a broad policy perspective rather than an
35 immediate audit perspective. And that's really it. So - - -

Wright The other bit I've offered a few times is if you have anything that you want to do with Mr Ferrier – I know I can't get any information on other taxpayers but there's nothing stopping me from giving you information. I'm happy for - - -

Dolevski True, there's nothing stopping you from giving us information.

40 Wright No. So I'm happy for Nick - - -

Dolevski Everyone's entitled to make a dob – you know, dob in or whatever - - -

McMaster Well, they call them Turks.

Dolevski Dob in a Turk.

Sommer So - - -

45 Wright I'm not friendly with the guy at the moment so I'm happy to give over anything. Trust me.

McMaster Understandable.

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Sommer And simply as a by-product if you like of some of the heat and light and frustration that seems to have gone on, I think we would like to have an independent person come in and assist with the preparation of those revised BASs.

5 Dolevski So, Andrew, would you be proposing that your firm put the revised BASs together?

Sommer No, I'm not a BAS agent. I don't do that sort of stuff.

Wright Have someone who does it.

Sommer No. John will sit - - -

10 Dolevski Well, it would actually need someone to provide the information and we've got – I mean, who I'm thinking of is Andrew.

McMaster Yeah. He would be a good person and he's independent of Selso so it's not a problem.

Sommer Andrew?

15 McMaster Miller.

Sommer Okay.

Dolevski He's from Parramatta and he's from our audit area.

Wright What I would like to say is - - -

20 Dolevski Because, I mean, I don't think it's – there's no bias here in terms of – let me put that on the table.

Sommer Yep.

Dolevski There's certainly not bias in terms of the way these audits are being conducted. I think there has been a lack of clarity and understanding and even what we thought we actually had understood and we had put our own structure together from what we could put together - - -

25 Sommer Yep.

Dolevski But - - -

McMaster This is what we thought it was.

Dolevski But it was all pretty much around bitcoins.

30 Sommer Yep.

Dolevski I have to say that I think we haven't been too off the mark in terms of - - -

Wright One for John.

Dolevski - - - how things have flowed.

Sommer Yep.

35 Wright Yeah.

McMaster But obviously that's no longer the - - -

Dolevski But I think - - -

Sommer No, no, no.

Dolevski No.

40 Sommer And we're not

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- Dolevski But I think from my perspective – and Andrew is the one that, you know, independently took all the information and, with another officer - - -
- McMaster And prepared this flowchart.
- 5 Dolevski - - - you know, assisted him and prepared this so I think with now at least having that background - - -
- Sommer Yep. I think my – I'm instructed to request as humbly as possible that we move away from Parramatta and that may simply be a matter of perception rather than anything else but given some of the complicated history and particularly given some of the difficulties with some of the previous
- 10 interactions with the Tax Office prior to these issues we would ask if it's at all possible to have it transferred to an audit team in a different
- Dolevski Well, all of the audit teams reported to me so - - -
- Sommer I don't - - -
- Dolevski Yeah.
- 15 Sommer That would be something we would appreciate.
- Dolevski Okay.
- Sommer With the greatest of respect to the team that has been doing it it would give an additional degree of comfort to the taxpayer to have it relocated to a different team.
- 20 Dolevski Even though we're now talking about a pure revision of BASs?
- Sommer Yep.
- Dolevski Accepting the ATO view and purely - - -
- Sommer Yep.
- 25 Dolevski - - - advising the BAS is based on that, you would still feel uncomfortable with - - -
- Sommer I wouldn't put it like that - - -
- Dolevski We would remove Selsa as the - - -
- Sommer - - - but I would say I would feel more comfortable - - -
- Dolevski Well, your request – yep.
- 30 Sommer - - - if it was in one of the other offices, is what we're requesting.
- Chester But what we can do, though, because we're using zero base, we can do it anyway we just sit there and do it, just – I don't know It doesn't have to be one of these We could do it in this room
- 35 Wright And, see, you've got here, "Have not even acquired it yet". I mean, I've already - - -
- Sommer
- Dolevski Yeah. It has been – we acknowledge that it's – yeah.
- McMaster Well, it's based on what information we had.
- Wright Yeah.
- 40 Dolevski We've had misunderstandings and - - -

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Sommer Look, I would like not to have to do a, you know, line-by-line response to the interim audit report and all those sorts of things - - -

Dolevski No. We were just - - -

Sommer If we can withdraw that and then, you know

5 Wright And the other bit is - - -

Dolevski So, Andrew, just on the interim report, though - - -

Sommer Yep.

Dolevski Well, I suppose it's riddled with reference to isn't it?

10 McMaster Well, it is. What has been presented today - - -

Doa Yeah.

Dolevski It's factually incorrect.

McMaster What has been presented today is factually incorrect, yeah.

Dolevski Instructions that have been put forward today in light of those.

15 Sommer Yeah.

Dolevski Agreed that the facts are wrong.

McMaster Totally.

Dolevski Okay. I hear what you're saying and I still think it's a little bit unfair to judge the auditors based on the information they weren't given.

20 Sommer No, no, no, it's not so much that. It's just that the point – and we're not saying that they're – we're not making any allegation of impropriety. It's merely – I think it would be seen as a nice fresh start if we could start in a different office

Dolevski It's just the timing aspect. We would lose so much time with people that, you know - - -

25 Sommer I understand that but it would be - - -

Dolevski - - - have to come to grips of - - -

Sommer In many ways it would be nice to start with people who start afresh with what we now understand to be the way in which it happened

30 Chester But they're not going to review any of confusion. We're just going through an audit revision based on an agreed process

Dolevski Well, leave that one with me.

McMaster Can I suggest we take it on advisement?

Dolevski Yeah, absolutely. We will have to look at it because, I mean, I have to look at what capacity auditors have and - - -

35 Sommer Sure. Understood. Resources.

Dolevski There is a – yeah. There is an element of urgency in withholding refunds.

Sommer Yep.

Chester so we would like to get that as quickly as possible.

40 Wright And especially of their money so - - -

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Chester
Dolevski We will consider it. I mean, that's why I thought Andrew. You know, he's fresh. He hasn't done any of this.
Sommer I mean, but if he prepared those on the basis of the previous submissions then he has already - - -
5 Dolevski Well, I mean, but - - -
McMaster Only the documents received.
Dolevski Yeah, absolutely.
10 Sommer Yeah, and I'm not – and, as I say, I'm not - - -
Dolevski Yeah. And this is purely – I mean, we all in this room – we all thought it was bitcoins we're talking about so – I mean, this presentation has certainly shed quite a, you know, different light on things so - - -
McMaster Dramatically.
15 Dolevski Yeah.
Wright See, but part of this is – I still see it as bitcoins.
Dolevski Shh. Yeah.
Wright You have the lawyer hassling. I mean, it's rights and - - -
Dolevski Yeah, but - - -
20 Wright I have the technology - - -
Sommer You see it as until the point you say to me, "Andrew, nothing has ever moved and nothing has ever come to Australia" at which point I have to say, "Is there a taxable supply in Australia", and if nothing is here then I can't apply the nexus tests to that so what has actually transpired as the supply between those two entities? It can only be, you know, the – you know, what is it, the nemo dat principle, you can only supply what you've got. They don't have actual bitcoin. They've only got rights to call for bitcoin. Those rights came from you. Those rights subsist against the trusts and that's – again, that's how, you know, I've – I've – Craig's entirely right. This is my legal analysis of the facts as I understand them, based on what seems to have happened.
30 Wright See, I have the car in the UK and I had a piece of paper and whatever else and I sold – I – rather than say that I'm selling you a car, it may stay in the UK and everything like that and – but anyway.
Dolevski It has got nothing to do with tax in Australia then if you sold that car in the UK.
35 Sommer
Chester What happened is that there's a whole treatment and the – I suppose the response that we got from Craig in terms of information generally has been a paranoia process based on prior experience and taking things out or leave them, in 2010 or whatever it was, off to America and other places was a response to the experience that he had the last time and the way he set things up was
40 McMaster Well, the auditors that were involved in that prior one are nowhere near involved in this one.
Chester Well, you were involved in it.

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- McMaster Well, only as a director, but I wasn't an auditor.
- Wright I guess I gained a little bit of paranoia on that one - - -
- 5 McMaster Look, I can understand where you're coming from, okay, and I can also understand the communication confusion because you clearly see these things as bitcoins.
- Wright I see them as money.
- 10 McMaster You see them as currency and you treat them in the same way and when you talk to us about them, that's how you talk about them and, unfortunately, that has created a confusion around what actually occurred, and that's all that me as a director and Marina as my Assistant Commissioner are trying to clarify. What are the true facts here and if at the end of the day you've got a refund, you've got a refund. End of story. You're entitled.
- 15 Sommer And all we're trying to do, all I'm trying to do is, you know – you know, if I was a nefarious litigator – and I know lots of them – there's nothing I would rather do than run a declaratory proceeding against you guys about money. However, with Craig and John in their current situation that's going to tie more of their money up and, you know, I don't work for free, and that's not going to progress things. I would rather come to you guys and say, "Look, listen, the whole treatment of bitcoin is not what we anticipated but if we actually look at what you've said and try and make it work" – and I'm a big fan of trying to make things work as far as we can. We can always you know, when you guys lose in the Federal Court and, you know, you decide not to appeal and bitcoin is money, we can always go back and revise the BASs again but at least we can make some progress and actually stop this business being strangled, and that's really what I want to achieve. I just want to actually let these guys escape from under six different audits and try and get back to the business. That's my objective.
- 20
- 25
- Chester And whatever so if Andrew's the guy and you vouch for Andrew. He's the guy?
- 30 McMaster He is a very good top-notch person.
- Chester And make no mistake, there's nothing wrong with Selsa.
- McMaster Yep.
- Chester We've had some good work with Selsa. The problem is the way that he received things at the outset was and we tried to explain on many different occasions and there was no – the difficulty is that it's – for all of us, that we're dealing in cyberspace and the problem with cyberspace is that it's out there some place but – and it doesn't exist, but it does exist; and it doesn't exist, but it does. It's like Europe. The Euro isn't fiat money either. It's just that people agree that it's money.
- 35
- 40 Dolevski But, John, I don't think we actually even need to get confused by that.
- Chester Yeah. We can ignore it.
- Dolevski You know, I think if we just look at the documents and what they're telling us, that's what we need to form a view on. Just what Andrew has done, he has looked at, and that's what we need to do as tax administrators.
- 45 Wright Yep. And unfortunately there was bad timing as well.

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Dolevski What - you guys get on with your business, we don't need to be involved in; we just need to understand the transactions and then we can see how they apply and what is the relevant tax, if any.

5 Wright And unfortunately there was also a bad situation in that just as all this happened the guy who was the CFO of the company, Jamie, had [REDACTED] and [REDACTED] and I'm the first to acknowledge I'm not good at getting things to you guys. I just dump everything. I don't structure anything properly and that's job.

10 Dolevski Look, I mean – you know. Anyway, look, I will discuss it with Des but my preference still, and I would strongly recommend that you agree about Andrew. He's an excellent auditor which is why we actually had him review this and, you know, a very different way of working so - - -

McMaster Why don't my clients confer and they can - - -

Dolevski Yep.

15 McMaster They can confirm or disavow But, yeah.

Dolevski But I would love your presentation, please.

Sommer Yeah, yeah. I will just – I will clean it up and - - -

Dolevski I think that's certainly – yeah.

Sommer - - - get Craig's authority to provide it to you and then I will send it to you.

20 McMaster That would be good because we will need that sort of information in what we're doing because we still need to run that past yourself.

Sommer Yep. And we've built this up – I mean, John and I built this up yesterday afternoon from the documents so we can provide you with the documents and I've tried to, as much as possible, put them up on the screen for you.

25 McMaster Sure.

Sommer So you can actually – because, you know, there's a difference between and making assertions and actually giving you documents so where I've got easy extraction documents to show you I've tried to do that. There are other documents behind all of that but I was pretty confident that once – if we could actually do this – and thank you for accommodating me with the projector because it – and I just thought if we could do it this way – I'm quite sure everything

30 McMaster Visual is so much better.

Sommer Yeah, well, you know - - -

35 Dolevski Which is why we tried to draw - - -

Sommer Yeah, exactly, and I've got – like, I could – I won't, but I could show you my notes going back from the start of January where I've completely scratched everything out and started again now that I understand what's going on, so - - -

40 McMaster Which is what we've got to do.

Sommer Exactly. All right. Well - - -

Wright And I admit my problem is – I mean, I will point you to Economics 101 which says money is a stored value of blah blah blah and whether the – whatever you say, I will get stuck on that bit and we will get nowhere.

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Sommer But we will do is we will drive Michael Harding mad with that and we will try and keep you sane and get the audits process - - -

Dolevski That would be good.

Sommer I always enjoy - - -

5 McMaster Sounds reasonable to me.

Dolevski Yeah.

Sommer I thought you would like that. All right.

McMaster Okay. So any other discussion, because I will stop this and start recording it.

Dolevski Well, Hoa, have you got any questions considering you've come from Perth?

10 McMaster Yeah, exactly.

Doa So did you want us to have another look at the objection right issues?

Sommer I think you should. I think you should have a look at those notices.

Doa Yeah.

Dolevski Yep.

15 Doa Yeah - - -

Sommer Call for a copy of those notices and actually have a look at whether or not you're happy with them.

Doa Yeah.

Sommer Because John sent an email saying, "I can't see where the objection rights are in this because you don't seem to be telling me you need any information. You're telling me you formed a view as to the operation of the law".

20 Doa Yep.

Sommer Tell me where my objection right is and then we will – so don't refer to 8AALZGA and then if you're happy with them, send me an email saying, you know, you've looked at them and you're happy with them and if you're not happy with them then, you know, at least give us something that we can choose to object to if we want to.

25 Doa Sure. Yep.

Sommer But all of that, hopefully, if we can – my preference is just to raise that as a systems issue for you guys because I know it's a new provision. I've never seen these notices before but when I got them I said, "I don't think these work". But when – and I was involved in the drafting of it. When we drafted the part you into that section I thought it was a waste of time anyway because, you know, with a good conscious how do I tell the client that they should spend their money on a procedural review rather than answering the damn questions. So it's always easier just to answer the questions.

30 Doa Yeah.

Sommer So, yeah.

McMaster Not a problem then.

35 Doa Yeah. And if we could that, that would be really good to review the transactions based on the new understanding. And with the interim audit reports we will just leave them sitting to the side for a minute?

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Sommer Well, probably best to send the letter saying – if you don't mind just sending a letter saying - - -

Doa withdrawn.

5 Sommer "We will withdraw these to reconsider the additional information we've provided".

Wright And just on a different note, but you want a formal – I'm happy for Nick, who is the litigator, to give you all the evidence that we have to tie that together too.

10 Sommer I think that will just bury you guys but if – once we've prepared the brief, because we are – you know, the full brief. If you guys want a copy of the proof we have against of MJF and so on because it may be of assistance to you in any action you may or may not choose to take in relation to a taxpayer who's not in the room - - -

Wright And you don't need to give me information about - - -

15 Sommer - - - then I suppose we can do that but I think we're still working on putting all that together at the moment. And if you think that would be useful from a – can I say interest perspective – we can probably do that in due course.

McMaster Okay.

20 Wright Because the current one is – we might have it against the company but we're trying to build a unconscionable conduct-type thing against the individual so that – because if you're just a director you and - - -

Sommer Okay. Thank you so much. I really appreciate - - -

McMaster Not a problem.

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