

THE LEGALITY OF CRYPTOCURRENCY AND ITS CHALLENGES: A GLOBAL PERSPECTIVE

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ABSTRACT

As the use of digital money has grown quickly over the past few years, the legality of cryptocurrencies has been debated and talked about. This case study looks at the different ways that countries around the world have tried to control this new technology in order to give a global view of the legal problems that cryptocurrencies face. The study looks at law papers, academic articles, and government reports using a qualitative research method to give a full picture of how cryptocurrencies are regulated right now. The study looks at a number of countries, including the US, China, India, and the EU. A unified global approach to control is needed to deal with the many problems that this technology brings up.

Keywords- Cryptocurrency, Legality, Regulation, Global perspective, Blockchain, Digital currencies, Financial technology, Innovation, Risk, Compliance, Taxation, Consumer protection, Investor confidence

Introduction

Virtual currency is unregulated by banks or governments. Digital currencies are built on a network of computers that monitor trades. The earliest and most famous cryptocurrencies were created in 2009. There are several digital currencies. Cryptocurrency holders may purchase products and services. Buy and trade bitcoins online. Cryptocurrencies are popular for several reasons.

Lawful regulation of cryptocurrencies is disputed. Each nation regulates cryptocurrencies differently. The problem for authorities is that technology changes so quickly. Cryptocurrencies are always changing, so authorities have to keep making changes to their rules. To use cryptocurrency, the United States is one of the places that has made it pretty easy. China stopped initial coin offers (ICOs) and put limits on how cryptocurrency could be used. The problems that regulators face is the same. In order to protect customers and stop illegal activities, they need to find a balance between the need to encourage new ideas and keep the coin market from growing too slowly.

When deciding if something is legal, it's important to think about the pros and cons of it. Cryptocurrencies have decentralised control, which is one of their best features¹. Cryptocurrencies are not controlled by government banks like regular money is. This lets people trade with each other.

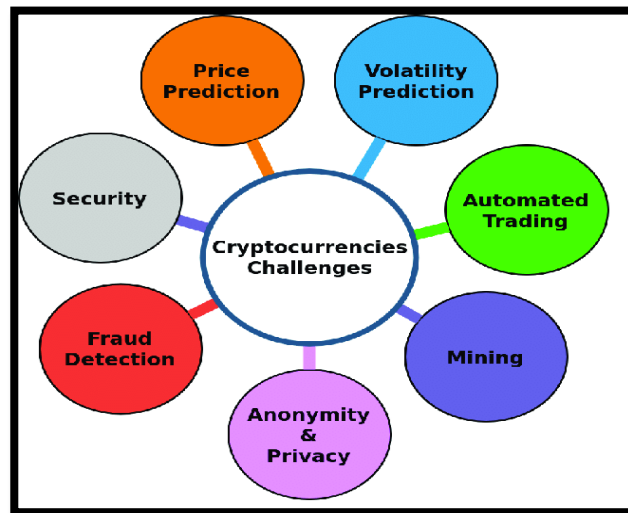


Figure 1: Crypto currency challenges

It lists the perks of being open and honest. There is a public log that keeps track of all cryptocurrency transactions. Having activities that are open to the public can lower the risk of cheating. There are dangers associated with cryptocurrencies. One of the risks is market volatility. Significant losses can be suffered by investors when the value of cryptocurrencies goes down.

Materials And Methods

A research methodology was used, a literature review, consulted academic articles, and read legal documents. The databases were searched using the phrases "blockchain law," "digital currency legal framework," and "cryptocurrency regulation.". Valuable insights into the regulatory landscape of various countries can be found in studies, reports, and articles.

The legal documents and government reports from various countries were analysed. The United States, China, Japan, European union, and India were selected to analyse their legal frameworks related to cryptocurrencies². Information on regulatory policies and guidelines can be found on the websites of the us securities and exchange commission and the European commission. Legal professionals who specialize in the regulation of cryptocurrencies were consulted. Practical challenges and implications of implementing regulatory frameworks for cryptocurrencies were provided by them. The experts offered suggestions on how to make the regulations more effective. The research methodology was designed to make sure our findings were correct.

¹Aliu, F., Bajra, U. and Preniqi, N., 2022. Analysis of diversification benefits for cryptocurrency portfolios before and during the COVID-19 pandemic. *Studies in Economics and Finance*, 39(3), pp.444-457

²Goforth, C.R., 2021. Regulation of Crypto: Who Is the Securities and Exchange Commission Protecting?. *American Business Law Journal*, 58(3), pp.643-705.

Results

Different countries have different approaches to regulating cryptocurrencies.

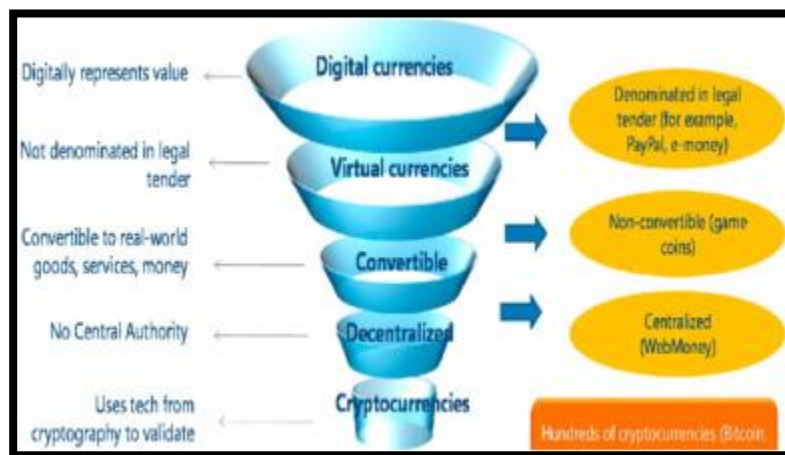


Figure 2: Comparative analysis of global regulations on cryptocurrency

Classification: Certain nations see digital currencies as investments, while others don't. The U.S.'s labelling of cryptocurrencies is overseen by the Commodity Futures Trading Commission³. In response to concerns about money laundering and terrorist finance, the European Union has taken a more complex approach to cryptocurrencies, labelling them as virtual currencies and putting them under strict rules.

Taxation policies: One important part of controlling cryptocurrency is taxation. Cryptocurrencies will be taxed or not by governments. Japan has chosen a policy of complete taxation, which includes taxes on both cryptocurrency trades and mining. Singapore has not been as involved in taxing cryptocurrencies.

Licensing requirements: The control of coins depends on businesses having licence requirements. Prior to starting, businesses must obtain licences. Financial Crimes Enforcement Network (FinCEN) requires exchanges to sign up and obtain money transfer licences.

Comparison and analysis: Cryptocurrency regulations are always changing. A lot of countries have adopted cryptocurrencies, but others are being more careful. The need for innovation is hard for governments to balance with the need for safety and control, according to a study that compared different

³Al-Tawil, T.N.E., 2023. Anti-money laundering regulation of cryptocurrency: UAE and global approaches. *Journal of Money Laundering Control*, 26(6), pp.1150-1164.

governing methods⁴. Others have said that the US's method to regulation is too strict, while the EU's way of classifying virtual currencies has been seen as fairer. Cryptocurrency businesses often go to Switzerland.

Cryptocurrencies are treated very badly in China. Chinese authorities did not allow initial coin offers, a way for projects to get money by selling their assets to buyers.

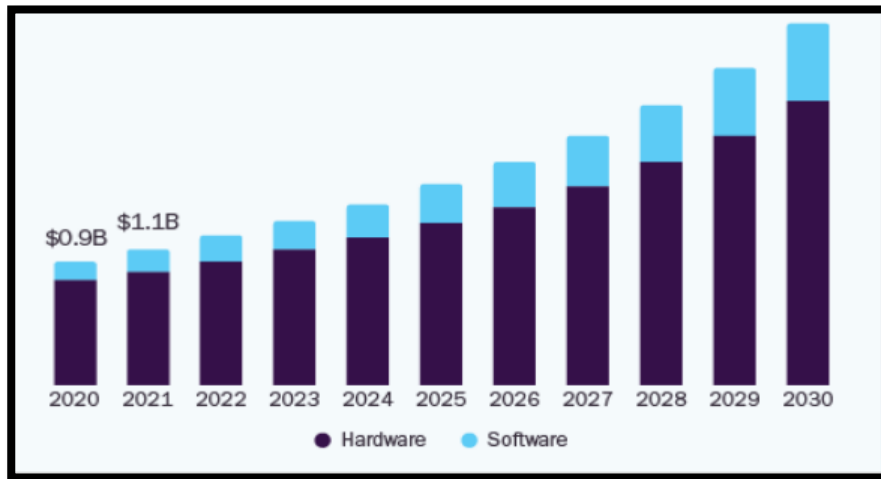


Figure 3: Cryptocurrency market share

The Chinese government was thought to be using them to raise money without permission. Somewhat unclear is India's position on cryptocurrencies. While the Indian government does not strictly prohibit cryptocurrency, it does caution supporters about the possible dangers they pose. Since the Reserve Bank of India forbade banks from working with cryptocurrencies, it is hard for buyers to buy and sell them⁵. Supreme Court of India said that the Reserve Bank of India's ban on cryptocurrencies was against the country's law. It's unclear for many buyers and companies what to do because the Indian government hasn't made clear rules for the cryptocurrency industry. Issues arise when attempting to control digital monies. Governments have to carefully think about the problem while also protecting investment.

Discussion

Legal problems arise when it comes to enforcing rules surrounding cryptocurrencies. There are various rules in various places⁶. Few governments have adopted cryptocurrencies, while others have.

⁴Titov, V., Uandykova, M., Litvishko, O., Kalmykova, T., Prosekov, S. and Senjyu, T., 2021. Cryptocurrency open innovation payment system: Comparative analysis of existing cryptocurrencies. *Journal of Open Innovation: Technology, Market, and Complexity*, 7(1), p.102.

⁵Jones, P.J. and Long, S.D., 2021. Analysis and discussion of 28 recent marine protected area governance (MPAG) case studies: Challenges of decentralisation in the shadow of hierarchy. *Marine Policy*, 127, p.104362.

⁶Orejas, C., Kenchington, E., Rice, J., Kazanidis, G., Palialexis, A., Johnson, D., Gianni, M., Danovaro, R. and Roberts, J.M., 2020. Towards a common approach to the assessment of the environmental status of deep-sea ecosystems in areas beyond national jurisdiction. *Marine Policy*, 121, p.104182.

Cryptocurrency users, both businesses and people, have to deal with a lot of different rules. International teamwork between governing bodies doesn't exist. Regulators need to deal with the problems that cryptocurrencies cause. It was announced by the Financial Action Task Force that rules for controlling virtual assets have been developed⁷. The rules tell countries how to regulate cryptocurrencies.

Cryptocurrency laws that aren't clear and uniform have caused investors, companies, and authorities to be uncertain and confused. Anxiety has stopped the market from growing. For creativity and investment trust to grow, regulations need to be easily understood. Legal rules make it possible for companies to expand. What can and cannot the owners do? Corporations don't want to alter their methods⁸. Switzerland has produced rules for managing cryptocurrencies. According to the rules, this lets them work within a context that lets them come up with new ideas. Digital currencies are regulated in Singapore by a set of rules.

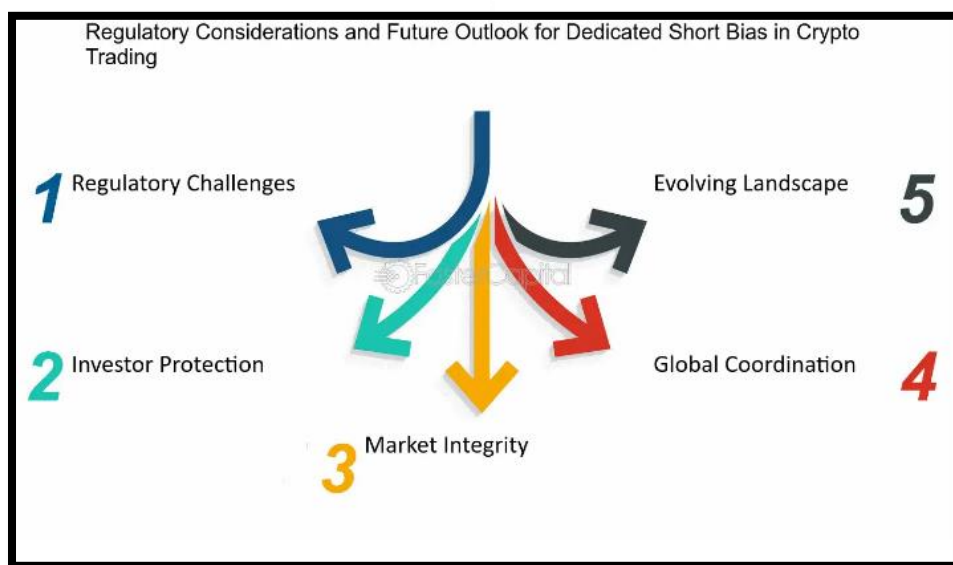


Figure 4: Regulatory Consideration

Guidelines for regulating virtual assets have been released by the Financial Action Task Force⁹. Therefore, the rules help countries follow the right path to meet global standards. The European Union has talked about a way to regulate cryptocurrencies.

C Balancing regulation with technological advancements Ensuring stability and safety while still letting new ideas and growth happen is one of the hardest things about managing cryptocurrency. If regulators want to help society, they should be careful not to stop new tools and ideas from working. For example,

⁷Uyduran, B., 2020. The crypto effect on cross border transfers and future trends of cryptocurrencies. *Financial Internet Quarterly*, 16(4), pp.12-23.

⁸Al Mashhour, O.F., Abd Aziz, A.S. and Noor, N.A.M., Blockchain and its Entire Eco-System: A Legal Consideration to an International Cross-Border Technology.

⁹Wenzlaff, K., Odorović, A., Ziegler, T. and Shneor, R., 2020. Crowdfunding in Europe: between fragmentation and harmonization. *Advances in crowdfunding: research and practice*, pp.373-390.

a lab setting can help find a mix between rules and new technology. Regulators don't have to agree to new financial tools being tried in a controlled setting. Regulators can see what the risks and benefits of new technologies are.

As one option, work with people who are already in the business. Regulators can read up on the latest changes in the field and make smart choices by working with experts and other interested parties¹⁰. As a result of working together, rules can be more effective. Regulation, industry experts, and stakeholders must carefully consider and collaborate on how to balance law and technology. Regulators may create a test setting, cooperate with industry leaders, and use a principles-based approach to manage cryptocurrencies to promote stability, security, and innovation.

Uncertainty surrounds the future of crypto law, but it needs to change along with the technology it aims to control. Regulations will need to change as the business grows and becomes more mature in order to deal with new problems and take advantage of new possibilities. New technologies can be tested and watched by officials thanks to the growing use of sandbox settings. Some of the trends include the creation of global rules for regulating coins¹¹. It's important to keep an eye on things and make changes as needed because technology changes so quickly that rules can become useless.

Conclusion

The legality of cryptocurrencies worries governments, lawmakers, and financial companies. There is a lack of a universal regulatory framework and cross-border nature of cryptocurrencies. Increased efficiency, reduced transaction costs, and improved access to financial services are some of the benefits of cryptocurrencies. Switzerland and Singapore have taken steps towards creating frameworks that are comprehensive, while others like China and India are still grappling with the legal and practical challenges posed by cryptocurrencies. The need for regulation is balanced by an adaptive approach to the legality of cryptocurrencies.

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