



 Research Article

THE EMERGENCE OF CRYPTOCURRENCIES AS AN ECONOMIC PHENOMENON AND INTERNATIONAL EXPERIENCE IN ITS LEGAL REGULATION

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ABSTRACT

This article is devoted to the history of the emergence of cryptocurrencies, which is described as an unusual virtual monetary system that acquires a new and high level of relevance for the world economy, the conditions that caused their appearance, the issues of what technologies and systems it works on. The article also discusses the issues of circulation of cryptocurrencies, their classification, penetration into the economy of states, as well as difficulties in its legal and economic regulation. At the same time, the experience of developed countries of the world, such as the United States of America and the People's Republic of China, in the field of regulating the circulation of cryptocurrencies and their current state has been studied.

KEYWORDS

Cryptocurrency, cryptography, Bitcoin, blockchain technology, digital money, virtual assets, quasi-scientific publications, mining, mining farms, fiat money.

INTRODUCTION

Introducing a particular innovation into practice and studying foreign experience in this area before implementing it into the national legal system of the country and comparing it with national law will help to

determine its advantages and understand the prospects for the development of the industry much deeper.

MATERIALS AND METHODS

In the research for this scientific article, general methods were used: logical, systematic, historical, and comparative-legal methods. On the topic, the opinions and ideas of scientists, specialists in the economic sphere, and the experiences of foreign countries are analyzed and given appropriate suggestions and recommendations.

THE RESULTS OF THE RESEARCH

The 21st century, which according to a number of well-known authors was projected to be a “golden age” for the world economy, brought hard tests for society and raised new complex questions for scientists. The increase in the amount of cash flows from developed countries to developing countries as “assistance” did not lead to an improvement in the level of economic and social life in those countries, but instead led to a change in the ownership of national property in exchange for fake capital. Besides, the global crisis is leading to the acceleration of world capitalization, an increase in social stratification, and a loss of trust in the world financial system. The last lecture of the Club of Rome brought to public attention the peculiarity of this situation, the authors of which directly called for a revision of the existing economic paradigm, that is, models of economic management, as well as a change in the vector of community development.

According to experts, new prospects for development are connected with the revolutionary development of digital technologies and their penetration into all spheres of social life, including the economy. The research carried out on artificial intelligence technologies, blockchain, and cryptocurrencies is especially relevant today, since they are evaluated as a specific format of a new economic formation, called a digital or virtual economy.

Against the background of crisis processes and the loss of trust in traditional economic institutions, interest in cryptocurrencies is growing. This topic is generating hot discussions today, both among the scientific community and the general public. Sometimes they are even seen as “digital gold”, which is considered the newest stage of digital money and the model of the virtual economy. A lot of literature on the topic of blockchain and cryptocurrencies is emerging, but most of it is not of a direct scientific nature and is published publicly by representatives of the digital elite — the digerati, that is, new generations of social network, blogosphere, and IT leaders, people with high potential in the field of computer technology — mainly in the form of quasi-scientific records. On a March 1, 1992, column in “The New York Times” titled “On Language”, William Safire described the new term in question: “The digerati are people who are good at processing and manipulating digital information, the rich, or scientists”. Quasi-science is such a branch of science that both false information and truth can exist. But proving its degree is a complex process. In short, a concept that is used to refer to a network of information-based science that has not found its full scientific confirmation. In this example sample, one can observe changes in the process of producing scientific knowledge in areas related to the new digital technologies of the 21st century. In addition to that, the work made by N. Popper, D. Tapscott, and A. Tapscott, which explores the changes that cryptocurrency and blockchain bring to the economy and society as a whole, is worthy of note. Other works, such as A. Antonopolus’ work, also revealed the technical side of the matter. Analytical reviews of leading international consulting companies, in particular Deloitte and PWC, are also counted as sources of interest.

Cryptocurrency is a special type of electronic payment instrument. By itself, this is just a mathematical code created by an internet network. These are so named because of the use of cryptographic elements when referring to “virtual money”.

Cryptocurrencies are digital assets and digital currencies that use a blockchain to regulate the release and circulation of account units to carry out mutual calculations within an inter-user (based on the equality of participants) network. Bitcoin, Ethereum, Litecoin, Cash, Dash, Monero, and others are obvious examples of such cryptocurrencies. Their creators count several programmers from all over the world. The technological principle behind the operation of cryptocurrencies is blockchain technology. A blockchain is a cryptographically encrypted, distributed register in the form of blocks integrated into a sequential chain that stores information about the history of transactions on an inter-user network. Historically, the first blockchain project was the Bitcoin cryptocurrency, created in 2008 by a team of programmers or programmers under the pseudonym Satoshi Nakamoto. But this type of cryptocurrency was released to the network in January 2009.

An important case is that the mechanism of trust in this inter-user network is provided by specially developed algorithms supported by network participants. It is this factor, according to the plans of the developers, that allows users to literally go beyond the boundaries of the existing financial system and freely manage their own funds. We will try to analyze in detail how this situation is carried out using blockchain technology and other methods.

As noted above, the peculiarity of most cryptocurrencies is their decentralization: the chain of transactions is stored not in one place but in the

electronic wallets of all network users. In addition, it is stored in encrypted form, which is a means of protecting it from hacking and changing. All operations necessary for the operation of the network are carried out in an electronic environment by various devices (for example, video cards and processors), depending on the mechanism of operation of a particular blockchain or cryptocurrency. Another factor is that it is impossible to change the blockchain chain without the appropriate decision of all network participants, that is, the network consensus. Because they operate on the same network, any change affects all of them equally. Cryptocurrencies are generally an open system. This means that information on transactions between participants will be available online, but information about the personalities of the participants will be hidden.

Today, it is not advisable to consider cryptocurrencies, in particular, Bitcoin, as "money of full value", but opponents of cryptocurrency and its supporters think about them in a completely different way: in the opinion of the first party, this is a money surrogate, even nothing more than a financial pyramid; in this regard, the opinion of the second party, on the contrary, is that Fiat money is considered paper money with several levels of protection issued by the state for circulation inside and outside the country, and this type of money includes virtual funds that are stored on a regular plastic card, as well as accepted for payment of goods and services. Examples include sums, dollars, rubles, euros, pounds sterling, etc.

It should be noted that in the matter of the concept of "cryptocurrency," there is still no specific definition. To describe it, one has to resort to a close history. At the same time that the internet became more popular in the world information network, ideas began to appear about the possibility of implementing the practice of

remote mutual transfer of money. Since the mid-2000s, many services and software began to appear that allow remote work with banks, including RBS (remote banking services) for organizations, internet banking, mobile banking, etc. At the same time, so-called "electronic money" has developed, which is actually fiat money, that is, a simple form of money that is usually converted into money that has already become a regular means of payment in exchange for a certain commission. Almost always, there is an opportunity to replace them. Thus, a large part of electronic money was provided in daily currencies. The official term "electronic money" is still not clearly disclosed; that is, despite the fact that sometimes it is too broad and sometimes rather narrowly interpreted, both of the aforementioned areas are very well regulated in the legislation of many different countries around the world. For example, in Russia, electronic money is regulated by the federal law "On the National Payment System" and various manifestations of banking services through orders issued by the Central Bank of the Russian Federation; in France, by Law 575 "On Trust in the Digital Economy" of June 15, 2004; and in the United Kingdom, by the Law "On Financial Services (Banking Reform)" of 2013.

Taking Bitcoin as an example of an early cryptocurrency, a simple definition was not suitable for naming this unusual system. For this reason, a number of researchers have proposed the term "cryptocurrency", and initially this name began to be used in relation to Bitcoin. The term "cryptocurrency" is now commonly associated with the name Andy Greenberg. It was after he published his article "Crypto Currency" in the financial and economic journal "Forbes" on April 20, 2011, that the term cryptocurrencies began to be used in relation to this appearance of virtual money. Since cryptographic algorithms are used to operate the currency in this

case, the main emphasis is on the word "crypto" in the first part of the term. Thus, it is difficult to analyze and classify these monetary surrogates in science using currently available approaches. Extensive research is required to get a comprehensive idea of the new field.

One thing is certain: it can be said that a certain public consensus on the possibility of using cryptocurrencies (as a means of exchange and investment) has taken time to form, as a result of which they have also taken on a certain place in the world financial system.

The main distinguishing feature of cryptocurrencies is their way of appearing in the digital world. It is formed by a network. Cryptocurrency, literally, appears from the "air" and is not emitted by anyone.

As a result, anyone with knowledge of cryptography, mathematics, and programming can receive a cryptocurrency. The main thing is that there is no need to use third-party organizations to carry out transactions using cryptocurrency.

There are 2 ways to capture cryptocurrencies: buying them for real money or "mining"—generating them on the network using special computers called "mining farms", which are distinguished by high computing power and special software from ordinary office computers. But there are also such cryptocurrencies that it is impossible to win them by mining. We can cite Ripple as an example. Because at the time of its release, Ripple (XRP) had a total value of 100 billion. And as a result of this, it is not possible to make it an additional emission.

The use of such types of currencies is carried out in accordance with the "blockchain" system, as we noted above. This system provides a decentralized database in which data is stored not in a single source but on the computers of millions of different users.



Every year, new cryptocurrencies appear and the old ones disappear. A complete list of available virtual money can be tracked on the website .

In a situation where digital technologies are developing and the processes of digitization of all processes—computerization—are rapidly growing, no state can be left out of these processes, and, therefore, it is time-consuming to adapt the directions of its domestic policy to global changes, from the most developed countries of the world to countries with the lowest level of development. Thus, in Uzbekistan, one of the most important tasks is the legal or economic regulation of the sphere of handling these cryptocurrencies, or virtual assets. To this end, studying the experiences of the developed countries of the world, their benefits, and adapting them to the directions of our country's policy and drawing the necessary conclusions from the shortcomings allowed is one of the important reforms that should be implemented in this area.

For this purpose, we will try to study the experiences of a number of economically high-potential countries around the world.

First of all, let's look at the experience of the United States, which occupies a leading place in the world economy. Studying the experience of the United States, we can observe one complex aspect in it: this is mainly due to the peculiarities of the state legal system, and there is no single position between federal law and the laws of the states regarding the determination of the legal status of cryptocurrency. Thus, digital currency is simultaneously seen as an analogue of money, property, and exchange goods. At the federal level, it is established that some cryptocurrency companies (e.g., exchanges) must register as Money transfer operators in the Financial

crime fighting network. At the state level, however, the activities of such companies must be licensed in each individual state. Digital money is regulated by means of the norms of property law for the purposes of tax collection. Transactions carried out on a cryptocurrency medium are subject to taxation. For example, wages paid to workers in bitcoins are the subject of federal income tax and wage taxes. Currently, the US federal bodies that provide official explanations about Bitcoin turnover are the Internal Revenue Service and the financial crime control bureaus. As noted above, social relations related to cryptocurrency are regulated not only by federal laws but also by the laws of the states. The first of all US states, the state of California, allowed the use of cryptocurrency at the legislative level. The law, which gives any corporation, association, or person in California the right to participate in this type of monetary turnover, came into force as early as 2015. Even so, running a cryptocurrency business in the state is not yet fully regulated . By now, however, Bloomberg reported that in California, the "Digital Financial Assets Act" would be sent for the signature of State Governor Gavin Newsom, and the issue of signing or rejecting the project would have to be resolved by September 30. If the document was accepted, it was established that it would be implemented from January 2025, and upon its entry into force, a procedure was to be established in which the activities of companies engaged in digital asset exchange and crypto financial services are required to be licensed by the California Department of Financial Protection and innovation . But on September 23, 2022, California Governor Gavin Newsom vetoed House Bill 2269 of the Assembly, known as the "Digital Financial Assets Act", meaning he refused to sign it . Without the governor's veto, these businesses would be under the constant supervision and scrutiny of the California State Department of Financial Protection and Innovation

(SDFPI) and would have to make a number of changes in order to meet critical requirements for policy and procedure development to disclose consumer information and eliminate probable risks. Governor Gevin Newsom, in his statement noting that signing this law requires in-depth study, also mentioned the following: "Additionally, standing up a new regulatory program is a costly undertaking, and this bill would require a loan from the general fund in the tens of millions of dollars for the first several years. Such a significant commitment of general fund resources should be considered and accounted for in the annual budget process."

In the state of Washington, digital currency is the object of money transfers under the concepts outlined in the "Act on Monetization of Monetary Services". This means that companies can carry out transactions on cryptocurrency transfers to Washington residents only after obtaining the license of the Washington operator on transfers. This requirement also applies to exchanges that provide services for exchanging fiat money for cryptocurrencies and vice versa, exchanging only digital money. Companies that provide cryptocurrency wallets to users and carry out transactions between them on the exchange or transfer of digital currency are also subjects of this procedure. Companies that provide cryptocurrency wallets must conduct an audit of the security of their computer systems in order to obtain the appropriate license. Individuals who carry out cryptocurrency operations directly with other individuals do not need to obtain a license .

In 2017, the U.S. Trade Commission on Commodity Futures (agreements for the buying and selling of goods, in which the price is agreed before a particular future time at which the goods will be provided) officially allowed Bitcoin futures trading to begin. CBRE

Global Markets Inc., one of the first Chicago Commodity Exchange Group (CME Group Inc.) and Chicago option (a contract that provides the buyer's right to buy or sell the underlying asset over a certain period of time and at a specified price) exchange managers, withdrew.

In December 2017, U.S. President Donald Trump signed a law that would amend the country's tax code and close a loophole that would allow tax evasion when exchanging one cryptocurrency for another.

To avoid income tax, cryptocurrency investors used commercial methods called 1031 ("1031 exchanges") by "jumping" from one cryptocurrency to another, i.e., changing their owned cryptocurrency.

Exchange transactions regulated by Article 1031 of the Tax Code are usually used by real estate traders to avoid taxes on housing exchanges between the two parties. And although the law does not say whether this rule can be applied when exchanging cryptocurrencies, the owners of digital currencies have expanded their activities in practice—in fact, by working in the "gray zone".

The new tax code excludes cryptocurrencies from the structure of the normative "Section 1031", leaving no way, and now it would be necessary to pay taxes for any transaction on the exchange of one cryptocurrency for another .

Next, we consider it worthwhile to consider the Chinese experience. Because the People's Republic of China is also one of the states with the most powerful economy, and in times of economic and political tension in the world, it is competing on an equal footing with the United States. China is one of the countries with the fastest-growing financial technology markets in the world. In addition, most of

the mining pools (e.g., F2Pool, AntPool, BTC, etc.) are located here. Mining pools are specially created spaces, i.e., web services, designed to properly distribute power, uniting miners to increase revenue efficiency.

At the same time, a unified approach to the legal regulation of cryptocurrency has not yet been developed in China either.

Cryptocurrency is treated as a commodity according to the established regulation, and cryptocurrency exchanges (and other websites related to digital currency) must be registered with the Telecommunications Bureau. At the beginning, taxation was carried out according to the standard rules established for goods: taxes on income tax and capital gains were levied on cryptocurrency transactions, and its sale could be subject to value-added tax. Cryptocurrency is seen as a virtual commodity (a digital asset that is not considered as money). The approach in law is in the process of formation at the same time.

In 2013, the People's Bank of China stated that there were no prohibitions on performing cryptocurrency transactions. Alternatively, Bitcoin was seen as a type of asset rather than a currency .

In 2016, while 70% of transactions in the Bitcoin network were made through Chinese mining pools, 40% of all transactions came from Chinese-based cryptocurrency exchanges. It was noted that the relevant definitions will be cited in a new draft of the basic provisions of the country's Civil Code.

At the time, virtual property and digital currencies were expected to soon be recognized as "fundamental human rights" in China . But the development of events did not turn out as everyone expected. In 2017, China

shut down local cryptocurrency exchanges while their market, which is speculative, that is, trading in cryptocurrencies and generating revenue due to mid-value changes resulting from their resale, accounted for 90 percent of global Bitcoin trading. As of September 2017, public ownership of cryptocurrency has been banned. At the same time, in China, permission was retained to store cryptocurrencies for individuals and to carry out transactions with cryptocurrencies between them .

In June 2019, Chinese cryptocurrency trading was officially banned after the People's Bank of China reported that all forms of cryptocurrency exchanges block access to all of the Associated domestic and foreign websites.

In May 2021, the government banned relevant institutions and companies from providing cryptocurrency-related services. In June, the government instructed payment platforms and banks to stop making payments for cryptocurrency transactions and announced that cryptocurrency mining was already banned.

On September 24, 2021, 10 Chinese government organizations, including the People's Bank of China, jointly issued a public release of a notice signifying that cryptocurrency is not a legal tender. In addition, it was announced that all cryptocurrency transactions are illegal, including at offshore exchanges that provide services to Chinese citizens. Official authorities stated that employees of crypto exchanges or any companies that provide services to them in China will be examined and held accountable.

Financial institutions were prohibited from opening an account for the use of cryptocurrencies or providing money transfers and other services of this kind that

facilitate the use of cryptocurrencies. The advertising of virtual currencies through the monitoring of keywords related to cryptocurrencies on the Internet's World Information Network has also been canceled.

The reforms carried out in China have had a certain impact on the emergence of global concerns about the prospects of cryptocurrencies. The U.S. and Asian governments have stated their concerns that digital currencies can increase economic risk, raise crime rates, damage investment, and negatively affect government control in the monetary system sector.

The Chinese government also reported that virtual currency trading contributed to the growth of gambling, fraud, the legalization of illegal income, pyramid schemes, and other types of illegal activity, so the ban on cryptocurrency is very important to ensure social stability and national security.

Some analysts believe that the Chinese government is also implementing such prohibitions because it considers cryptocurrencies as a threat to the "digital yuan", an electronic currency that is in an advanced experimental stage.

Against the background of the above prohibitions, many cryptocurrency companies have stopped serving users in China and supplying hardware for mining cryptocurrencies. Quick, in turn, unexpected regulatory procedures introduced into practice pose a risk that companies in China will transfer their activities to offshore zones. And responsibility for engaging in this activity is established.

CONCLUSIONS

In conclusion, it should be said that the current world is fundamentally different from that of several decades ago. This difference is determined by the

computerization, digitalization, and electronization of all areas of activity and the systems of their implementation. All these factors lead to the occurrence of unpredictable changes and the emergence of innovations in the fields of technology, education, and production. Including cryptocurrencies, which also arose against the background of changing times and are also developing to a certain extent, the crises that occur during the trends, as well as the disappearance of some types of cryptocurrencies, are also at a similar pace with the changes that are taking place in all areas. No specialist or scientist can say with full confidence that cryptocurrencies will disappear completely. Because the current national currencies were also not adopted in the same mood of consent by all segments of the population at the time of their initial implementation. As the main reason why cryptocurrencies are not perceived as a full-fledged currency by states and, in some ways, by cautious economists and experts, we can point out a high level of risk in it, that is, it is not supplied with gold, oil, or securities, like the national currencies of states, and for this reason the legal and economic regulation of cryptocurrencies is regularly updated in different countries, and the existing approaches are being changed. Each central bank or the main financial organization of the state has its own approaches, ranging from officially issued permits for commerce in the field of cryptocurrencies to the introduction of general principles of regulation to complete prohibitions on this type of activity. Now, as a result of considering these procedures, it can be noted that mainly countries with high GDP, showing high development trends and excellent state management, are choosing not to ban cryptocurrencies but to create conditions for them by developing a legal framework, since it can be seen that their economic power gives way to this. Now, in contrast, countries where an unstable economic situation prevails or have problems

with the domestic market are pursuing a policy of banning cryptocurrencies. As for the issue in China, it can be shown that giving an excessive amount of freedom in the regulation of crypto assets caused the process to fall out of the sphere of government influence.

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