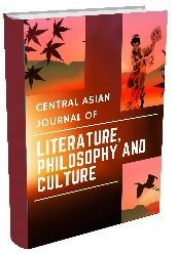

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Legal Considerations of Virtual Assets

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Abstract

This paper investigates the legal considerations made to handle virtual assets. Virtual assets are an umbrella for digital types of properties, including pictures, tracks, contents, and AI-generated materials. This paper, however, focuses on financial transactions used in online and networked channels strictly known as cryptocurrencies and any other digital coins, currencies, or financial exchanges. The paper aims to unveil the regulatory and legal rules governing these currencies and assets. To do so, a set of data represented by various procedures and practices taken to control such assets has been elaborated on. the paper, additionally, draws on the studies and attempts, especially country-specific measures, initiated to handle cryptocurrency expansion. The paper finds that virtual assets and cryptocurrencies are innovative properties for which there are hardly any legal provisions in the relevant codes and laws. The paper, further, recommends that a complete understanding of digital currencies be made to foster awareness concerning these assets as to challenges, opportunities, and uncertainties. The paper, finally, suggests a few topics for future research.

Keywords: Virtual assets, Cryptocurrency, Digital trading, Blockchain, Bitcoin, Legal considerations, Financial regulations, Encrypted currency, Digital properties.

1. Introduction

Virtual assets are digital modules that can be used as an exchange, measurement module, or value store. They may be in the form of means of payment, smart contracts, or digital symbols representing tangible property or specific rights. Of the prominent types of virtual assets common nowadays are cryptocurrencies such as Bitcoins and Ethereum. (Bouri et al., 2019).

In the present, virtual assets have been identical to the shaping of financial transactions. Thanks to blockchain technology, virtual assets have provided a means of exchange that can bypass geo-barriers quickly, transparently, and safely. In fact, blockchain technology has been the backbone of virtual assets.

Additionally, these virtual assets provide new opportunities for investment and financial services, which makes them an important focus for innovation both in the financial and technological fields. (Lewis, 2018).

2. Technologization of Money

In order to demystify the origins of virtual assets, the effect technology has brought to the world must be considered. As early as the 1990s, several attempts have been made to create digital currencies. Digital transformation helped individuals and businesses communicate, exchange, and collaborate using innovative and unprecedented means (Alexander et al., 2023).

Notwithstanding that technology already transformed economies and businesses back in the 1970s and 1980s, as seen in many examples of cashless transfers, prepaid exchanges, and transnational trades, digital currencies reshaped the concepts. Of these digital and innovative technologies is blockchain which is a digital, non-sharable account book that cannot be changed and distributed via a network of computers.

This network, moreover, can record transactions transparently and securely without the need for central brokers, such as banks or financial institutions.

Alexander et al. (2023) maintained blockchain was the main element behind the creation of cryptocurrencies such as Bitcoin. Thanks to this technology, international financial transactions can be conducted quickly, safely, and at a much lower cost than by means conventional.

Over time, the benefit of blockchain was not limited to cryptocurrencies but expanded to include a range of wide applications, such as smart contracts, games, direct finance, etc. (Pagliery, 2014).

These developments, therefore, led to the emergence of many different ground assets that represent certain values or rights in the digital system.

Thus, it can be said that the technological revolution, especially blockchain technology, changed the face of the landscape of global finance and contributed to the development and growth of virtual assets. (Etienne et al., 2014).

3. Statement of Problem

This paper hypothesizes that virtual assets, considering their status as innovative means of digital finance, involve certain legal and regulatory issues that need to be addressed by the local authorities according to the applicable laws or by enacting new regulations.

4. Sample and Methodology

To reveal how virtual assets pose a problem for financial regulations, a set of data, represented by the procedures, practices, and measures taken by certain governments, financial institutions, and regulators, have been elaborated on. These data represent the concrete efforts made to control, adjust, adapt, or codify all the types of digital currencies.

5. Aims and Significance

This paper aims to investigate the legal effects of the adoption of cryptocurrencies, how law codes provide for these digital types of financial exchange, and how the practices of cryptocurrency stability can be improved. The study, additionally, draws on individual experiences and attempts to compare, contrast, and perceive the legal challenges of digital finance in different sectors and businesses.

6. Previous Literature

There have been different studies on virtual assets. Most of these studies underlined the legal, financial, and economic implications of digital currencies. Ever since the emergence of digital currencies, many governments around the world attempted to embrace these digital monetary transformations by monitoring, overseeing, or regulating the practices of digital finance. (Tosoni, 2020).

Similarly, common legal statutes have not been familiar with non-traditional, transnational, and electronic means of finance given the nature of digital currencies as decentralized financial activities.

Grinberg (2012) discussed the opportunities facing Bitcoin as an innovative currency by elaborating on the role of these currencies in the creation of new means of trading. This study, nevertheless, fell short of the

challenges caused by Bitcoins or other digital currencies to the existing businesses, especially government sectors which are far behind in handling such issues.

For Catalini (2018), the only way to embrace digital finance, mainly digital currencies, is to design or create digital economies. Parallel economies can handle digital transformation in financial sectors, which will make easy the regulation of virtual assets.

Aql and Hamid (2020) questioned the role of law in cases related to virtual assets, how courts can treat such cases, and what governments have to deal with these assets. They maintained that security and protection concerns have been challenging for governments in handling digital currencies.

Similarly, Udofa (2020) emphasized English law as a case study in the analysis of the legal considerations of virtual assets. His study concluded that laws are still unable to perceive digital transformation.

Quamara and Singh (2022) investigated the security aspects of digital currencies by citing the potentials and risks underlying these assets. Even though the certainties in digital financial transactions are high, there are, however, increases in digital transformation regardless of the security issues.

Alexander et al. (2023) studied the legal provisions set to govern digital currencies from a comparative perspective. Their study, however, could not verify or prove how far legal considerations can control digital currencies.

Alhammadi (2023) raised the issue of digital currency in the Arab world and whether this currency stands as a legal tender with a focus on a country-specific case. Her study pinpointed the legal, as well as the economic, barriers surrounding the complete perception of digital transformation, decentralization of trade, and non-regulation of finance.

7. Discussion

7.1. Traditional vs. Virtual Assets

Legally, the legal classification of virtual assets varies by country. Cryptocurrencies, therefore, such as Bitcoins, in some countries are used in payment, while in other countries, they are merely property or goods. In the United States, for instance, cryptocurrencies are property for tax purposes. (Schwartz, 2022).

In Japan, Bitcoin has been codified as a legal tender. Traditional assets, in most countries, are classified as per legislative frameworks, and stocks and bonds are, thus, classified as securities.

As far as protection and security are concerned, and due to its new and changing status, virtual assets may face challenging legal protection, especially in fraud or theft. In 2014, the Mt. Gox platform was hacked and robbed with the investors involved lost millions of dollars' worth of Bitcoins without a way to recover it. (Brière et al., 2015). Traditional assets, in the same vein, are legally protected and secured and investors have ways of compromise at their disposition in case of fraud or any other official malpractices.

In regulation and oversight, virtual assets in most countries are still in the early stages of organizing virtual assets, meaning, there is more room for risk, but more room for opportunity. (Burniske & Tatar, 2017).

In China cryptocurrencies, along with the trading platforms, were banned. Traditional assets are organized following common and applicable laws and statutes and are subject to official stock exchanges such as the US-based NASDAQ and NYSE.

In taxation and transparency, virtual assets may face challenges in taxability and fund reporting, especially given their nature as encrypted cash and transparent transactions. In France and Germany, for example, there are regulations to verify cryptocurrency-related tax reporting. (Bossu et al. 2020).

As for recognition and acceptance, while virtual assets may not, owing to various conditions, a wide recognition in finance-wise transactions in certain countries, traditional assets are globally accepted and recognized. The regulation governing finance, however, may be subject to modifications or changes.

7.2. Virtual Assets Legally Defined

Legally, virtual assets comprise a variety of financial and non-financial properties, transactions, third-party franchises, and other digital proprietaries. Although there are quite broad definitions and manifestations of these assets, there are, however, local and national classifications of assets in general. (Houben & Snyers, 2018).

In this respect, blockchain-based encrypted coins, such as Bitcoins and Ethereum, are considered alternative currencies and might as well be considered methods of payment. In 2017, Japan ruled that Bitcoins are legal tenders, which makes Japan the first country to codify and recognize these encrypted coins. (Grinberg, 2012). In China, Singapore, and Russia, encrypted coins are not generally recognized nor they are legally regulated, with some slight bans and cautions on trading in China.

Legal considerations are changing which justifies the position of these encrypted coins as quasi-legally recognized in this country or that country. The overall position of virtual assets in general, and encrypted coins in specific, are cast over by different security and protection concerns. (Prasad, 2021).

In the United States, for example, where most encrypted coins originated, regulations vary by state, businesses, legal districts, and stock exchanges. In other words, there are no clear-cut limitations, restrictions, or decentralizations of encrypted coins.

Stablecoins, recently-emerging encrypted coins, replaced Libra, another encrypted coin, as stable, unchangeable coins, in certain tenders and trades, which has been questioned in the US judicial and congressional settings over the (de)legitimization of these coins. (Bossu et al. 2020).

In the UK, the state-run financial conduct authority released encrypted coin-related data stating that all sorts of encrypted currencies can be subject to respective regulations (Grinberg, 2012).

Notwithstanding all of these country-specific regulations and restrictions, technological advancement remains a potential challenge not only for encrypted currencies, but also for traditional assets and finance-governing laws given the fast, unprecedented super developments in IT, artificial intelligence, mobile applications, and various automata (Prasad, 2021).

7.3. Successful Models

Despite the controversies surrounding virtual assets and encrypted currencies, the pros and cons, and the legal disputes on how to govern these assets, there are, however, some successful examples in that innovative field of finance. These experiences and models, additionally, have been reliable.

Switzerland, the most acceptable country of encrypted currencies, has launched a Crypto Valley where startups, entrepreneurships, and IT-based finances are boosted.

In Singapore, the investment and security regulator provides clear and practical rules to help businesses manage encrypted currencies, which makes Singapore a global and successful leader in cryptocurrencies.

In the Middle East, thanks to advanced technology and the geographical location, the UAE has emerged as a cryptocurrency leader having provided incentives to foster digital finance, virtual trading, and encrypted currencies.

These three successful cases can be a guide for other countries to take advantage of digital finance.

8. Conclusions

Based on the discussions and analyses elaborated on above, this paper finds that;

1. Virtual assets still need further studies and analyses to understand their role in the economic sectors.
2. Virtual assets are a challenge to the traditional practices of finance. These assets, thus, require new legal provisions and statutes to govern them.
3. The measures and practices made to regulate, guide, and normalize virtual assets largely vary by countries, economies, businesses, and sectors.
4. Lawmakers, business regulators, and legal bodies are urged to consider the problems, obstacles, and issues arising due to the trading, exchange, or adoption of virtual assets.
5. Lawmakers, business regulators, stakeholders, and legal bodies can collaborate with IT experts to adjust the rules governing virtual assets.
6. It is highly important that awareness of virtual assets be raised so as to perceive the challenges, opportunities, and experiences facing the adoption of these assets.
7. The previous and current de facto status of digital currencies indicates that it is not easy to plainly define the legal codes of digital currencies even in the countries where these currencies have been traded.

9. Recommendations

To help understand the status of virtual assets and encrypted currencies, this paper recommends several tips that can help develop the legal frameworks of virtual assets as well as encrypted currencies.

1. A gradual recognition and acceptance of virtual assets and encrypted currencies is urged in order to embrace the challenges and benefits of these assets.
2. Legal bodies and business regulators need to co-act with other decision-makers and stakeholders in investment, development, technology, and digital finance in order to reformulate consistent guidelines concerning virtual assets.
3. The managers and owners of digital currencies need to act transparently with regard to financial transactions in order to counter any malpractices.
4. A public awareness and education of digital currencies should be scheduled that can be translated into plain terminology in order to demystify all the misconceptions surrounding digital currencies.

10. Further Studies

As the forms of digital finance are increasing, so is the literature on these assets. Thus, other areas of interest can still be researched or investigated.

1. A study of the political considerations involved in digital finance as to laws, regulations, or codes.
2. A study of corruption involved in digital currencies as to the manipulation of laws, money-laundering, property smuggling, tax-evasion, and other official and position-related malpractices.
3. A study of country-specific practices and measures concerning digital finance and assets as a separate case study.
4. A study of the AI-assisted practices used to create, transfer, mint, and trade digital currencies.
5. A study of the role of digital currencies in developing and third-world countries to find how these assets can assist, boost, and develop these economies.

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