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LEGAL REGULATION OF CRYPTOCURRENCY

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ABSTRACT

The article discusses the legal regulation of operations with cryptocurrency, which functions with the help of blockchain technology. It has been determined that blockchain technology will not only revolutionize financial spheres, but also has the potential to change approaches to data management, cybersecurity, logistics, medicine and other industries. Based on the principles of decentralization and security, it opens up new opportunities for optimizing business processes and ensuring transparency in other sectors of society.

Purpose. It consists in an in-depth study of the essence of cryptocurrencies through the analysis of international experience regarding their legal regulation. In addition, the work is aimed at the development of specific proposals and prospects for the further development of the legal regulation of cryptocurrencies in Ukraine.

Scientific novelty. It is noted that the development and expansion of the use of blockchain technology in Ukraine indicate a rapid process of adaptation to the digital age and define the country as a promising participant in the global innovation movement. It has been proven that outside of the financial sector, blockchain technology can serve as an effective tool for voting platforms and document and title management, which can contribute to improving the processes of democracy and administration.

It is noted that Ukraine, being a supporter of digital innovations, is already implementing blockchain in public spheres, such as SETAM and the state land cadastre. However, the main application of blockchain in Ukraine in the public sphere is currently the cryptocurrency market, which is currently regulated by the Law of Ukraine "On Virtual Assets".

Methods and methodology. In the course of the research, such methods as analysis and synthesis, methods of historical and logical modeling were used. Theoretical approaches were also applied, in particular the method of formalization and the method "from abstract to concrete".

Results. In the proposed article, special attention is paid to the analysis of aspects of the practical application of the legal mechanism of the cryptocurrency market.

Conclusions. The national legislation on the regulation of the cryptocurrency market in Ukraine needs improvement. This may include implementing a taxation system for cryptocurrency and defining a

clear legal status for this type of digital asset. It is also important to determine the algorithm of actions for transactions with cryptocurrencies and establish transparent rules for their regulation. The creation of dedicated regulatory bodies that specialize in digital currency matters could contribute to more effective oversight of the industry. These authorities may be responsible for advising users, issuing licenses and controlling processes related to the use of cryptocurrencies, including money laundering prevention.

KEYWORDS: cryptocurrency, bitcoin, blockchain, legal regulation, cryptocurrency market

STATEMENT OF THE PROBLEM.

The relevance of this topic is undoubtedly due to the rapid development of blockchain technology and its implementation in various spheres of life, in particular in business, economics and the legal field. Blockchain technology defines a new stage in the development of the information society, and cryptocurrencies based on this technology are becoming the subject of intense discussion and research. One of the key controversies in this context is the issue of legal regulation of cryptocurrencies that operate using blockchain technology. Changes in traditional approaches to financial regulation and the emergence of new forms of ownership and exchange create the need to develop adaptive legal frameworks that take into account the specifics of these innovations. It is important to note that blockchain technology is not only revolutionizing the financial sector, but also has the potential to change approaches to data management, cybersecurity, logistics, medicine, and other industries. Based on the principles of decentralization and security, it opens up new opportunities for optimizing business processes and ensuring transparency in other sectors of society. Analysis of recent research and publications. The history of blockchain technology development, from the work of Haber and Stornett to the creation of Bitcoin by Satoshi Nakamoto, shows the constant need for innovation and improvement of accounting and information exchange systems. This recognition emphasizes the relevance of the topic and the need for a deep understanding and solution of the problems arising in the context of the use of blockchain technology and cryptocurrencies.

PURPOSE OF THE WORK.

The purpose of this research paper is to study in depth the essence of cryptocurrencies by analyzing international experience in their legal regulation. In addition, the work is aimed at developing specific proposals and prospects for further development of legal regulation of cryptocurrencies in Ukraine. Cryptocurrencies are already recognized as an important element of the global financial system, and their role and influence continue to grow. The analysis of international experience will allow to identify the key aspects of legal regulation of cryptocurrencies in different countries, taking into account both positive and controversial aspects of this issue. Particular attention is paid to the study of the development of cryptocurrency legislation in Ukraine. Identifying prospects and developing



recommendations will be a key stage of the work. This includes reviewing existing regulations, as well as identifying possible areas for further legislative initiatives and adapting legislation to the rapidly changing nature of the cryptocurrency market. This approach allows us to objectively identify the needs and challenges related to cryptocurrencies in Ukraine and develop practical recommendations for further improvement of their legal regulation. The results of this work may become an important contribution to the formation of an effective and modern legal environment for the development of the cryptocurrency sector in Ukraine. Summary of the main material.

Blockchain technology is a digital record-keeping mechanism that is formed from sequential blocks of data organized in chronological order and protected by cryptographic methods. Each block contains a set of information and is linked to the previous one using cryptographic evidence, creating a reliable and unbreakable chain. The principle of blockchain is based on the fact that information is collected in separate groups called blocks. These blocks have a limited capacity and, when filled, are locked to the previous block with the help of cryptographic confirmation. This creates a consistent chain of blocks that holds information about transactions or other data. The key feature of the blockchain is that new information that is added forms a new block, which, in turn, is added to the general chain. This process is governed by an algorithm that guarantees the secrecy of the data and ensures the security and traceability of the blockchain history [1]. This structure allows the blockchain to serve as a reliable tool for storing, transmitting, and tracking data in a number of industries, ranging from finance to logistics and medicine. Blockchain opens up new opportunities for the security and efficiency of information processing in the digital world. The growing popularity of blockchain technology reflects a general trend in choosing this innovative approach to storing and protecting digital data. Blockchain is becoming an important tool for verifying and tracking complex multi-stage transactions that require a high degree of reliability and security. The use of blockchain allows to guarantee secure transactions, reduce compliance costs and speed up data transfer processing, which is critical for the development of modern innovations [2]. One of the key origins of blockchain technology is its ability to effectively manage contracts and track the origin of products. This opens up great opportunities for improving supply chains and ensuring openness and transparency in production and trade. Beyond the financial sector, blockchain technology can serve as an effective tool for voting platforms and document and title management. This can help improve democratic and administrative processes. Ukraine, as a supporter of digital innovation, is already implementing blockchain in public areas such as SETAM and the state land cadastre. However, the main application of blockchain in Ukraine in the public sphere is currently the cryptocurrency market. The Law of Ukraine “On Virtual Assets” regulates this market by providing a clear legal framework for the circulation of virtual assets and defining the rights and obligations of their participants. This creates sustainability and trust in this sector of the economy. In general, the development and expansion of blockchain technology in Ukraine indicate a rapid process of adaptation to the digital age and define



the country as a promising participant in the global innovation movement [3]. Bitcoin, as a cryptocurrency, is designed to function as electronic money, providing the ability to make payments outside the supervision of any particular individual, group or organization. The main idea is to eliminate intermediaries in financial transactions and provide a decentralized approach to the circulation of funds. Bitcoin is unique in that all transactions are recorded in a global public ledger known as the blockchain. This record-keeping system provides an open and secure way to record all transactions with funds. An important feature is that copies of this ledger are stored on servers around the world, making it known and accessible to all network participants. Bitcoin's consensus system demonstrates a decentralized approach to resolving issues of ownership and transfer of currency. Instead of a centralized source of trust, such as a bank, consensus in bitcoin is achieved cryptographically through the interaction of various network nodes. This opens up the possibility for secure and reliable transactions, as no single party has complete control [4]. This transparent approach to money circulation also reflects the principles of decentralization and distributed power that underlie blockchain technology. Each transaction is public and transmitted through the entire network, creating a stable accounting mechanism and a reliable way to conduct financial transactions. The use of blockchain technology in bitcoin allows for the efficient creation of blocks of transactions that are regularly added to the blockchain. This process defines the ultimate bitcoin ledger, which serves as an important tool to ensure transparency, security, and speed in financial interactions. Bitcoin, using blockchain technology, provides users with the ability to transfer bitcoins without the intermediation of third parties. The bitcoin transaction algorithm allows each transaction to be verified before it is stored in the blockchain, which is a common database for all system participants. An important feature of this process is the encryption of information in the blockchain, which allows everyone to view it, but only the owner of a particular bitcoin can decrypt it [5]. Each bitcoin owner receives a unique “private key” with which they can decrypt and manage their digital assets. This private key acts as an important element of security and privacy in the system. An important feature of this process is the encryption of information in the blockchain, which makes it possible for everyone to view it, but only the owner of a particular bitcoin can decrypt it [5]. Each bitcoin owner receives a unique “private key” with which they can decrypt and manage their digital assets. This private key acts as an important element of security and privacy in the system. The blockchain management process is performed by users who own special software that processes transactions on the blockchain. These users, or “nodes,” play an important role in ensuring the integrity and security of the network. This distributed approach to managing money transfers not only eliminates the need to rely on intermediaries, but also creates a reliable and transparent system for financial transactions. As a result, users have the opportunity to interact effectively and securely in the world of cryptocurrencies using innovative blockchain technologies. Bitcoin, functioning as a decentralized network, is distinguished by its peer-to-peer nature, which means that information about transactions is shared among network users. In the context of bitcoin, this refers to transactions related to the purchase or sale of cryptocurrency. In this virtual



world, the idea is similar to the functioning of physical money, but virtual currencies are stored in digital wallets that can be accessed through client software or various online and hardware tools [6]. Bitcoin embeds cryptography-based trust protections that add security and privacy to financial transactions. Peer-to-peer transactions, which take place without the involvement of centralized intermediaries, are characterized by immediacy, speed, and efficiency. This means that users can conduct transactions safely and efficiently without relying on traditional financial institutions. The Bitcoin ecosystem consists of several key aspects. First, the use of cryptography is built into the currency itself, which ensures a high level of data and transaction security. Secondly, the absence of centralized intermediaries allows transactions to be carried out without delays and additional costs, making them irreversible and efficient. Overall, bitcoin is creating an innovative financial landscape where efficiency, security, and decentralization play an important role in ensuring the successful functioning of this cryptocurrency [7; 8]. In 2021, bitcoin has impressively demonstrated its value, experiencing a sharp rise, and in November reached a new all-time high, exceeding the \$68,000 mark. However, this extreme rise was tempered by some price declines in the following months.

In 2023, bitcoin and the cryptocurrency market in general witnessed a decline due to ongoing macroeconomic uncertainty. The reasons for this decline include skyrocketing inflation, stock market volatility, rising interest rates, and general concerns about a possible recession. An important factor is also the general regulatory activity in relation to virtual assets, as most developed countries have begun to introduce legislative regulations aimed at controlling the cryptocurrency market [9; 10]. Despite the temporary difficulties, bitcoin remains an important asset, and its long-term potential remains a subject of attention for investors and analysts. It is important to keep in mind that cryptocurrencies are dynamic assets and their price can fluctuate significantly depending on various factors, including global economic and regulatory changes. In Canada, cryptocurrencies are not legal tender, but they can be used to purchase goods and services if stores or online platforms accept them. The country regulates cryptocurrencies primarily under provincial securities laws. In 2014, Canada implemented the Proceeds of Crime and Money Laundering Act (PCMLTFA), which regulates the activities of organizations working with virtual currencies. In 2017, the British Columbia Securities Commission registered the first investment fund that works exclusively with cryptocurrencies. And in August 2017, the Canadian Securities Administrators (CSA) issued a notice on the applicability of existing securities laws to cryptocurrencies. In January 2018, the Governor of the Central Bank of Canada characterized cryptocurrencies as “technically” securities. The Canada Revenue Agency has been taxing cryptocurrencies since 2013, and Canadian tax law applies to cryptocurrency transactions. These steps demonstrate Canada's proactive approach to regulating the cryptocurrency space and its efforts to create a transparent and secure environment for users and businesses working with digital assets. In the European Union, cryptocurrencies are generally considered legal, but the rules for cryptocurrency exchange differ from one member state to another. The taxation of cryptocurrencies

also varies, but many member states levy capital gains tax on profits made from cryptocurrencies at different rates ranging from 0-50%. In 2015, the Court of Justice of the European Union ruled that the exchange of traditional currency for cryptocurrency should be exempt from VAT. This decision was an important step in recognizing cryptocurrencies as a taxable object and stimulating the development of this market in the European Union. In January 2020, the Fifth EU Anti-Money Laundering Directive (5 AMLD) extended the scope of EU legislation to include cryptocurrency exchanges for fiat money. This directive obliges cryptocurrency exchanges to carry out identity verification procedures and comply with standard reporting requirements as part of the fight against money laundering. In December 2020, the Sixth Anti-Money Laundering Directive (6 AMLD) came into force, further strengthening compliance for cryptocurrencies by adding cybercrime to the list of predicate offenses for money laundering. This reflects the European Union's growing attention to regulating the cryptocurrency sector and ensuring its safety and legality. The situation of cryptocurrency exchanges in the European Union in terms of regulation at the regional level currently remains uneven. In some member states, they are required to register with the relevant regulatory authorities, such as the German Financial Supervisory Authority (BaFin), the Autorité des Marchés Financiers of France (AMF), or the Italian Ministry of Finance. The permits and licenses obtained from these regulators can be exchanged, allowing exchanges to operate in a uniform manner across the bloc. New EU Anti-Money Laundering Directive (6 AMLD) has a significant impact on the functioning of cryptocurrency exchanges. According to this directive, liability for money laundering offenses applies to legal entities and individuals. This means that the managers of cryptocurrency wallet providers and exchanges must exercise much greater oversight over their internal anti-money laundering measures. This marks a growing level of responsibility and the need for enhanced controls on the part of exchanges in efforts to prevent their platforms from being used for illicit purposes.

CONCLUSIONS.

Several key factors contribute to the forecast of further growth in the popularity of bitcoin. In particular, the widespread acceptance of this cryptocurrency as a means of payment for products and services may help to popularize it among consumers and businesses. People are also increasingly realizing the potential of bitcoin as a store of value, especially in times of economic instability. National legislation regulating the cryptocurrency market in Ukraine needs to be improved. This may include introducing a taxation system for cryptocurrencies and defining a clear legal status for this type of digital asset. It is also important to define an algorithm of actions for conducting operations with cryptocurrencies and establish transparent rules for their regulation. Establishing specific regulatory bodies that specialize in digital currencies may contribute to more effective oversight of the industry. These bodies could be responsible for advising users, issuing licenses, and monitoring processes related to the use of cryptocurrencies, including the prevention of money laundering. Such a comprehensive approach would allow Ukraine to define a clear and transparent legal status for

cryptocurrencies, which would facilitate the development of this market and mark the country as an innovative leader in digital finance.

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