

# CRYPTOCURRENCY CIRCULATION IN THE GLOBAL AND DOMESTIC FINANCIAL SYSTEMS

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## ABSTRACT

*The article reviews the peculiarities of cryptocurrency circulation in the world and domestic financial systems. It is determined that scientific researches of the recent years are devoted to the specifics of cryptocurrency, the risks associated with the circulation of cryptocurrency and government instruments for their minimization. The general risks associated with the circulation of cryptocurrency, including the possibility of its use for the legalization of criminal proceeds. The peculiarities of the policy of the USA, Singapore, Argentina, Canada, the Czech Republic, and China in the direction of minimization the risk of legalization of incomes through cryptocurrency, in particular, criminalization of fraud with digital currency, restrictions on operations with cryptocurrency are revealed. Particular attention is paid to the experience of Ukraine in the field of legal regulation of cryptocurrency circulation. It is concluded that the key for minimizing the risk of money laundering through cryptocurrencies is the lack of a generally accepted cryptocurrency status, given that its definition is a priority in the direction of safe circulation of cryptocurrency in the world and domestic financial systems.*

**Keywords:** Cryptocurrency, Crypto-Business, Digital Currency, Financial System, Cryptocurrency Circulation, Legalization Of Criminal Proceeds.

## INTRODUCTION

The development of information and computer technology, the processes of financial and economic globalization has led to the transition of the world monetary system to a new level of development, one of the aspects of which is the activation of electronic currency turnover. In particular, over the period from 2009 to the present day there were more than 100 crypto exchanges, where 1147 crypto-coins were placed at a cost from \$ 1 to \$ 11,000.

One of the varieties of e-currency is Bitcoin, which is not controlled by state authorities and is the first digital decentralized currency, with an economic growth of billions of dollars over the last few years (Soni & Maheshwari, 2018). Such a popularization of cryptocurrency leads to the need of studying the existing risks of cryptocurrency, which, within the conditions of its circulation further growth, will have even greater impact on the development of modern financial relations and will affect the stability of the financial system of the state (Lakhno et al., 2018).

The rapid growth of the cryptocurrency circulation in the world and domestic financial systems indicates the existence of a number of issues that require resolution at the legislative level of all the countries-the specifics of cryptocurrency, peculiarities of transactions with cryptocurrency, liability for crimes against cryptocurrency, etc. It is the comprehension of these issues at the theoretical level that will allow us to identify common measures for all countries to minimize the potential risks of cryptocurrency (Pająk et al., 2016; Tkachenko et al., 2019).

## LITERATURE REVIEW

The growth of the cryptocurrency circulation rate in the world and national financial markets also caused the subject of scientific research, in particular, the researchers focus on the risks of cryptocurrency circulation, the instruments of state influence on cryptocurrency circulation products in order to minimize its risks, etc. First of all, research should focus on the prospects for popularizing cryptocurrency. So, Efremenko et al. taking into account the positive dynamics of electronic currency turnover, they even assume the possibility of obtaining international money status for cryptocurrency. (Efremenko et al., 2018). Although this position is not supported by many scientists. One of them is James Surowiecki, who emphasizes that cryptocurrency may not be the dominant currency in the state, since the economy of the state where such a situation will arise will be unstable and the government's tools for dealing with crisis economic phenomena will be limited. The key to this conclusion is that after its number reaches 21 million, its output will be suspended, and in case of a crisis, the state will not be able to increase its quantity (Surowiecki, 2018).

In the second group of studies it is possible to combine studies dedicated to the correlation, the relationship of cryptocurrency with the existing values, phenomena, and so on. In particular, Cocco et al. draw attention to the fact that for the cryptocurrency system to function, it requires a compact infrastructure, unlike the traditional financial system, which requires a lot of time and money to generate assets and their maintenance. All these costs are absent in the cryptocurrency system (Cocco et al., 2019; Kwilinski et al., 2019). However, Matkovskyy came to the conclusion that there is a direct correlation between dollar, euro, the British pound sterling and the cryptocurrency (Matkovskyy, 2019). In turn, Klein et al. compared cryptocurrency with gold and concluded that there were fundamental differences between them as values of the financial system of the state (Klein et al., 2018) Mills D.J. and Nower L. considered cryptocurrency in the aspect of its relationship with the existing problems of gambling (Mills & Nower, 2019). While Tziakouris concludes that it is the anonymous and decentralized nature of cryptocurrency that connects it with illegal activities, evasion from persecution of criminal groups (Tziakouris, 2018).

The third group, which we propose to allocate, is a study to minimize the risks of cryptocurrency. Galanov et al. stressed the need to build cryptocurrency market under the regulatory influence of the state, thereby avoiding the potential risks inherent to cryptocurrency (Galanov et al., 2018). Volosovych and Baraniuk, the methods of regulating the circulation of cryptocurrency, include the taxation of transactions and incomes from cryptocurrency, (Volosovych & Baraniuk, 2018). Krivoruchko et al. also complemented tools of legal regulation of cryptocurrency, including restrictions, monitoring, licensing activities related to conducting cryptocurrency operations (Krivoruchko et al., 2018)

## METHODOLOGY

The basis of the cryptocurrency circulation study in the world and domestic financial systems have become both general scientific and special methods of scientific knowledge. First of all, the peculiarities of cryptocurrency were clarified using the logical-semantic method, while the generalization of the doctrinal and legislative provisions concerning the cryptocurrency circulation-the method of critical analysis.

## FINDINGS AND DISCUSSIONS

The most active market of cryptocurrency for today mostly developed in North America, Western Europe and Asia, with the largest share of exchange transactions accrue for 18% for the United Kingdom, 12% for the United States and 6% for Japan. Beside these states, Germany, Switzerland, China (Marchenko & Krasnyanska, 2018) also playing a leading part in the number of cryptocurrency purses. At the same time, the peculiarities and prospects of the introduction of cryptocurrency in circulation depend essentially on the perception of their financial supervisory authorities. A striking example in this area is the experience of China, where, despite the spread of cryptocurrency, it is not connected with the activities of financial institutions, in particular the latter is prohibited from performing cryptocurrency operations. In other words, in fact, the cryptocurrency circulation in the state is regulated by the relevant acts, but the interference and participation of state institutions in transactions involving cryptocurrency is prohibited. In turn, some of the most favorable conditions for crypto-business in the world have been created in the UK and a program for supporting startups related to the cryptocurrency's market has been introduced. The experience of some states (Slovenia, Poland) also suggests that cryptocurrency mining is a subject to income tax, and in Spain, a tax on gambling.

There are also some warnings among scientists about promoting the circulation of cryptocurrency in world and domestic financial systems. In particular, Simanovskiy argues that cryptocurrency is a money surrogate that has no basis for trust as an instrument for the redistribution of national wealth (Simanovskiy, 2018).

Rohret and Vella, maintain the position that the cryptocurrency is a safe way of payment for purchases and payments received, which allows to conceal that the operations being carried out, and which cybercriminals have created and spread in order to avoid taxation (Rohret & Vella, 2018), and which eventually has set new challenges to the countries. It is the spread of cryptocurrency that led to loud attacks on the Internet. In February 2018, hackers got the access to 4,000 websites, including the UK Government, American Courts, the University of New York City, which threatened corporate networks, corporate websites, through installed plugins for BitCoin transfer (Caldwell, 2018).

It has to be agreed with Campbell-Verduyn, who emphasizes that cryptocurrency itself is not a significant threat for fighting against the legalization of criminal incomes, but is dangerous computer technology used for getting cryptocurrency. Therefore, there should be continuous monitoring of the capabilities of such computer technologies (Campbell-Verduyn, 2018). Although Mamunda concludes that with the increase of cryptocurrency number, the level of incomes legalization is increasing, as cryptocurrency is characterized by attributes which are contrary to the principles of counteraction and combating legalization of money laundering (Mamunda, 2018). In addition, it should be noted that the fight against crime in the field of taxation, including the legalization of criminal incomes, is a key issue of the state's development (Muljavka & Reznik, 2013). Thus, the analysis of the cryptocurrency circulation show that from

January 9, 2009 to September 20, 2018, 380 thousand Bitcoin was obtained from criminal sources, while this indicator is 36 times higher than in countries where the policy of counteracting incomes legalization is weak or absent at all (Cryptocurrency Anti-Money Laundering Report, 2018).

Understanding the public danger of violations, the subject of which is a virtual currency, the US government was one of the first to make a step forward in criminalizing fraud with the digital currency, which allowed to establish a criminal liability for its commission and to determine the list of measures in the field of counteraction to fraud with the digital currency. In addition, the United States, Singapore, Argentina, Canada, and the Czech Republic provided for by law the restrictions for cryptocurrency transactions are similar to the transactions that are subject to the law on the legalization of incomes-the provision of services related to the purchase, sale and storage, management of activities for buying and selling of virtual currencies. Consequently, the laws of the states equalized the transactions with cryptocurrency with ordinary financial transactions, which indicates the countries concern of the risks that cryptocurrency has got, and their efforts to counteract the crimes connected with it.

At the same time, only five countries in the world have taken those measures, and the experience of others is ambiguous in this regard. In particular, in Estonia, the legislation does not provide for restrictions on cryptocurrency transactions, but it also consolidates the licensing for suppliers of cryptocurrency exchange service, providers of virtual currency purses (Vishnevsky & Kwilinski, 2019).

This situation exists even though, the policy of countering the legalization of criminal incomes is one of the urgent for all countries. At the regional level, in 1990 the Council of Europe Convention on Laundering, Detection, Seizure and Confiscation of the Proceeds from Crime was adopted, which contains provisions for the legislation of the member states. In view of the fact that individual states have already introduced restrictions on cryptocurrency transactions and services, it is expedient to extend the rules of this convention to operations and cryptocurrency services. And in view of the lack of a unified approach to understanding the essence of cryptocurrency, the priority is the development and consolidation of the generally accepted status of cryptocurrency for all states. So, for today, the laws of the world countries define it as "*means*", "*assets*" (Poland), "*other business assets*" (Austria), "*financial instrument*" (Germany), "*property*" (France), which complicates the coordination of their effort between themselves. This is confirmed by the position of the Central Bank of the Great Britain, according to which the legal regulation of the cryptocurrency circulation is the best way to deal with illegal activity in the field of cryptocurrency, to promote the integrity of the domestic and foreign markets, and to protect the security of the state financial system (Arjun, 2018).

Litvinenko also believes that in order to avoid the use of cryptocurrency for illegal purposes, it is necessary to form an effective regulatory framework (Litvinenko, 2017). This question is especially relevant for Ukraine, in particular, in 2017, with the help of the draft law "*On the Circulation of Cryptocurrency in Ukraine*" it was attempted to determine the cryptocurrency as a program code that is the subject of property rights and may be a mine-measure, the details of which are entered and stored in the system BlockChain as the accounting units of the current BlockChain system in the form of data. At the same time, in 2017, the bill "*On Stimulating the Market for CryptoCurrency and its Derivatives in Ukraine*" was registered, which recognizes that cryptocurrency is a financial asset, in addition, forms of incentives for mining cryptocurrency operations are established (preferential taxation for entrepreneurs who carry out activities on the taxation of cryptocurrency's mining), the formation and

implementation of programs for the promotion of cryptocurrency's mining, financial support for innovative projects, implementation in relation to cryptocurrency's mining. However, none of the draft normative acts did not pay attention to the importance of extending the restrictions on the legalization (laundering) of proceeds from crime, which were provided by the legislation on cryptocurrency's operations.

## RECOMMENDATIONS

Taking into account the above, it is obvious that the growth of the cryptocurrency circulation, which is characterized by a number of specific features, also determines the risk of using cryptocurrency to legitimize criminal incomes, indicating the need for the countries to take joint measures for minimizing it. At the same time, first of all, countries are advised to determine the generally accepted status of cryptocurrency.

## CONCLUSION

Today, it is possible to allocate leaders on the cryptocurrency circulation among the world countries, although there are warnings about its popularization both within the scope of the national and world financial systems, including the possibility of criminal incomes legalization through cryptocurrency, tax evasion on transactions and incomes with cryptocurrency, etc. In this case, according to the experience of some countries, in order to minimize the risk of cryptocurrency circulation, the transactions with cryptocurrency are taxed (Spain), while the United States, Canada, the Czech Republic, Singapore and Australia even have criminalized fraud with the digital currency. In Ukraine, however, the regulation of the issue of cryptocurrency circulation has only began its formation. In connection with this, for Ukraine, the issue of promoting the principles of the cryptocurrency circulation remains relevant, while the definition of the generally accepted status of cryptography is still valid for all countries.

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