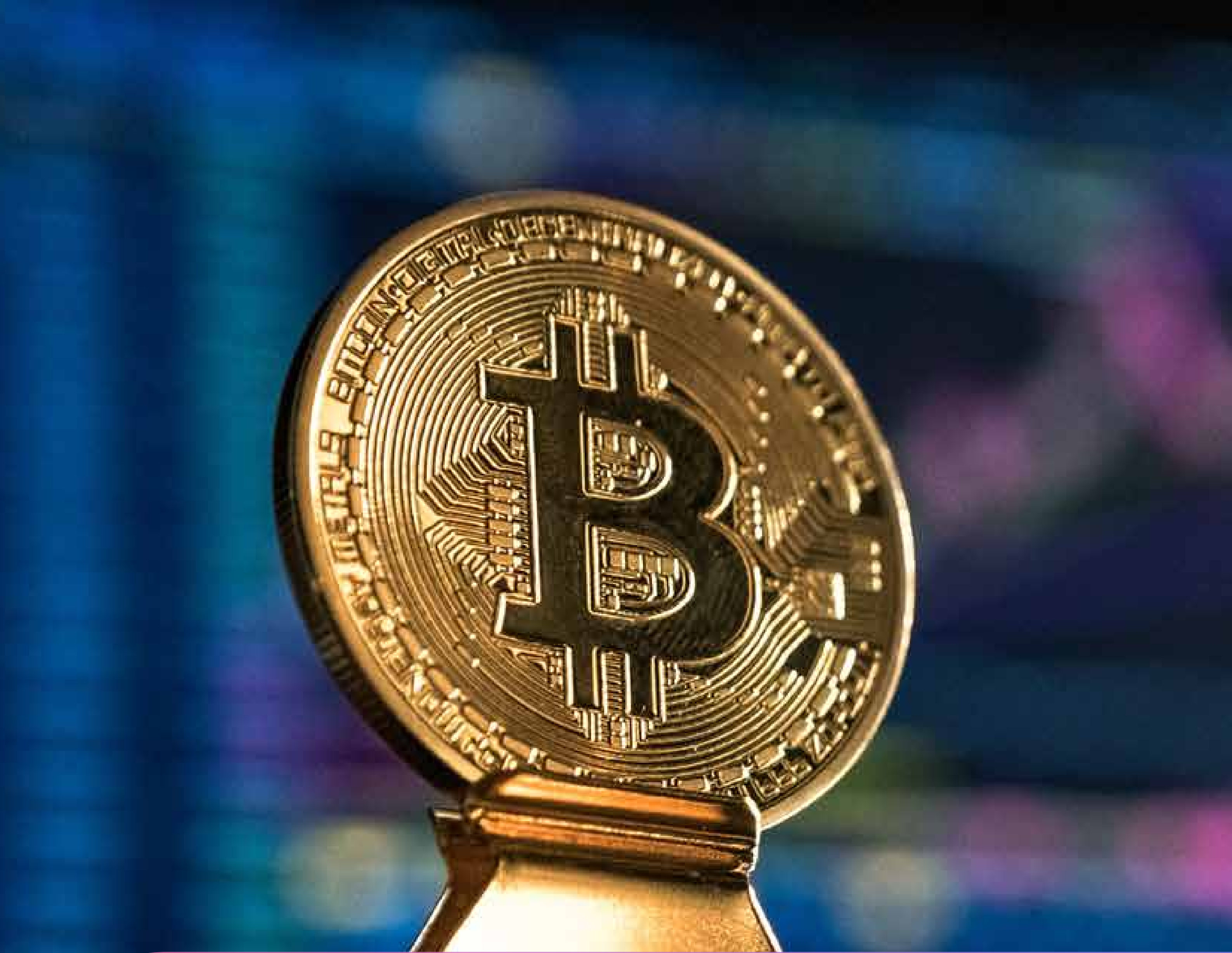

PRINCIPLES FOR SMART CRYPTO REGULATION

POLICY NOTE

Written by By Yaël Ossowski and Aleksandar Kokotović

CONSUMER CHOICE CENTER

INTRODUCTION

Since the arrival of Bitcoin in 2008, the world's first decentralized cryptographical digital currency, the crypto domain has been catapulted from sets of obscure programming passion projects to a highly dynamic sector worth $2 trillion. Whether it is mining, exchanges, decentralized finance, blockchains, or rapid payments, there is no doubt that crypto represents a new paradigm of agency, action, and opportunity for entrepreneurs and consumers alike. The benefits to broader crypto adoption are numerous and have been outlined elsewhere.

However, with such incredible innovation in a short period of time has come investor speculation, attempts at fraud, wild price swings, and blocking of crypto purchases by financial institutions. In response, regulators, recognizing the crypto paradigm shift, have begun actively drafting legislation and filing lawsuits against crypto projects to control and severely limit their activities and products.

As a consumer advocacy group that champions innovative technology and smart policies, we recognize the importance of crypto regulation for keeping bad actors in check and providing a sound institutional framework. We also recognize that the nascent crypto finance space is ever-changing and rapidly evolving, and that overzealous regulation could cripple future potential.

We offer the following bedrock principles on smart crypto regulation for lawmakers, hoping to promote sound policies that will encourage innovation, increase economic inclusion across all income groups, all the while protecting consumers from harm.

PRINCIPLES

Prevent Fraud

Technological Neutrality

Reasonable Taxation

Legal Certainty & Transparency

PREVENT FRAUD

One of the simplest principles for smart crypto regulation is that legal definitions and penalties for fraud should apply to any and all cryptocurrency projects, tokens, and companies. Despite the majority of crypto tokens or coins being legitimate, there are also scam sites, exchanges, or giveaways that defraud users by taking their funds or lying about their code or holdings. There are even those that siphon all digital assets they can before they shut down, known in the industry as a "rug pull."

By focusing resources on dishonest brokers and projects committing fraud, the government could save millions of consumers from losing their hard-earned money, all the while differentiating between bad actors and good ones. This would help boost confidence in the system overall, and protect consumers from illegal actors. Whether that is done by statute or de jure by law enforcement and courts depends on the jurisdiction, but keeping enforcement action on the side of those committing abuses and fraud should be one of the most important principles in order to protect both consumers and innovators in crypto.

TECHNOLOGICAL NEUTRALITY

Crypto and blockchain regulation should make technological neutrality a core tenet, meaning that governments should not declare winners or losers. Just like the vinyl record was replaced by the CD-ROM and then the MP3, governments should not choose a preferred technology and instead allow innovation, competition, and ultimately consumer choice to make that determination.

The decade-old crypto industry hosts an intense competition that rapidly changes each day. Whether through algorithmic mining (Proof of Work), block validation (Proof of Stake), or various consensus protocols, users and entrepreneurs are testing and adopting best practices. If states endorse one method or outlaw another, because of environmental, technical, or legal concerns, it risks backing the wrong horse and stifling innovation.

By championing technology neutrality, our institutions would allow for permissionless innovation to deliver the best products and projects, and that robust competition would set the standards for crypto technologies.

REASONABLE TAXATION

In large jurisdictions such as the United States, the current debate on cryptocurrencies focuses on whether to classify digital assets as securities, which would imply strict regulation by federal agencies, or as commodities or property, which would be more light touch. How regulators classify digital currencies and assets will also set the rates for taxation. In the EU nation of Estonia, for example, cryptocurrencies are considered property assets but are not subject to Value Added Tax (VAT). Capital gains are taxed accordingly, kept low enough to incentivize investment and innovation, but also high enough to ensure there is some measure of fairness.

Overall, regulators must not pigeonhole cryptocurrencies only as investments fit for taxing, but rather as technological tools that empower consumers and foster innovation. A unique crypto asset class, separate from traditional securities, would also help users benefit from the decentralization and encryption that these projects offer while ensuring reasonable taxation of gains.

LEGAL CERTAINTY & TRANSPARENCY

Regulators must provide legal certainty to the budding crypto sector or risk pushing all crypto activity to the black market or seedy jurisdictions, where no rules or regulations will be followed. The history of Prohibition or the Global War on Drugs, which have ballooned criminal and black market activity, provides us with an example.

We need clear guidelines that allow crypto companies to open bank accounts, take out insurance, and compensate workers legally. We also need assurances that federal agencies will not penalize actors or subject them to costly and burdensome enforcement actions just because no guidance has yet been written.

This will safeguard innovation, continue to create value for entrepreneurs and consumers, and will allow firms to pay taxes and follow rules. This will be vital. Simplified virtual currency exchange or business licenses, such as are used in Estonia, would be a reasonable measure that would promote legal certainty and transparency for businesses and would give consumers peace of mind when interacting with the crypto economy.

The status quo, whether that be in the SEC's lawsuits against crypto companies offering unique products and services or the looming threat of federal action from overzealous regulators, provides no security and no transparency as to the rule-making process. With clear and understandable legal guidelines, there would be a mutual understanding of rights and responsibilities for entrepreneurs, regulators, and consumers, and would help modernize our economies to adapt to this new reality of a crypto world.

CONCLUSION

The temptation to regulate cryptocurrencies and the blockchain economy based on financial considerations alone, rather than the innovative potential, is an active threat for entrepreneurs and consumers in the crypto space. Penalizing first-movers in crypto innovation or subjecting them to outdated laws will only serve to limit the unparalleled economic growth currently provided by the sector, or risk pushing all investment and entrepreneurship to less reliable and lawful jurisdictions.

The crypto revolution has already arrived in the 21st century. The legislative actions we take today will determine whether ordinary citizens and consumers of all income groups will be able to enjoy the fruits of that development, or whether it will be denied or made even riskier by our political and financial institutions.

ABOUT THE AUTHORS

Yaël Ossowski

Deputy Director

Yaël Ossowski is a writer, radio host, and deputy director at the Consumer Choice Center.

Since 2010, he has worked as a journalist and grassroots organizer in Europe and North America. He was previously Watchdog.org's Florida Bureau Chief, chief Spanish translator, and national investigative reporter from 2012-2015.

He is a contributor to Metropole Magazine in Vienna and has contributed to The Chicago Tribune, Washington Examiner, Le Journal de Montréal, Les Affaires, Charlotte Observer, Miami Herald, and more. He has had over 600 articles published in newspapers, magazines, and online outlets.

Yaël is co-host of the internationally-syndicated Consumer Choice Radio on WFBT Big Talker 106.7FM in Wilmington, North Carolina and Sauga 960AM in the Peel Region of Ontario, Canada.

He studied at Concordia University in Montréal and the University of Vienna, and received an MA in Philosophy, Politics, Economics (PPE) at the CEVRO Institute in Prague.

Aleksandr Kokotovic

Crypto Fellow

Aleksandar is the Crypto Fellow with Consumer Choice Center.

He has spent the last ten years promoting the ideas of free market and individual liberty around the world, speaking on various topics related to pro-liberty activism and individual freedom in dozens of countries, on four continents.

Aleksandar presented on the topic of cryptocurrencies, and need for consumer friendly regulation and spoke at 50+ events in 20+ countries, gave talks and workshops at 50+ leadership training events and seminars and published articles and op-eds for a variety of outlets such as Town Hall, Advocate, Balkan Insight and Talas.rs and appeared on Huff Post and N1, regional CNN affiliate. During this time, he also co-authored an academic paper on Sharing Economy as well as recorded several videos discussing issues such as cryptocurrencies, sharing economy and cannabis regulation.

CONSUMER CHOICE CENTER

info@consumerchoicecenter.org
www.consumerchoicecenter.org

700 12th St N.W Suite 700 PMB 94982
Washington, DC 20005