

REGULATION IN THE AGE OF CRYPTOCURRENCIES

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- By **Will Hallatt, Danila Logofet and Grace Chong**

Blockchain technology is ushering in a new epoch of monetary oversight, creating opportunities and challenges for regulators in a world disrupted by the advent of cryptocurrencies

As of 3 May 2018, according to *CoinMarketCap*, the current market capitalisation of Bitcoin and all other cryptocurrencies stands at USD409 billion. 193 cryptocurrency exchanges are now operating globally, located in many jurisdictions from South Korea to the Seychelles. Initial coin offerings (**ICOs**) have also flourished as a fundraising method. ICO funding for the first quarter of 2018 was USD6.3 billion, almost 20 percent higher than the previous year, according to *Coindesk*.

The regulatory response to this burgeoning sector has been inconsistent, and relatively schizophrenic. On one side of the coin, scarcely a week passes without a regulator taking enforcement action against a cryptocurrency exchange or issuing warnings against cryptocurrencies and ICOs. However, alongside this regulatory concern, governments from Sweden to China are embracing digital currencies at a national level, to give them more power and greater control over monetary policy.

POLICING THE WILD FRONTIER

Cryptocurrencies were created to compete with central banks. The Bitcoin ethos enshrines the concept of decentralised governance, designed to bypass regulated, established systems. In recent years, cryptocurrencies have also attracted investment in payments infrastructure built on their software protocols, including centralised and decentralised exchanges and wallet providers.

The explosion of interest in cryptocurrency trading is in a large part due to the introduction of ICOs. This innovative funding method allows startups to raise money by selling tokens representing an interest in their business proposition in return for cryptocurrencies such as Bitcoin or Ether.

The sky-high volumes raised by some of these ICOs have attracted regulatory attention as to whether ICOs offer sufficient protection to consumers and pose any systemic risks to the financial markets. Given the complex matrix of securities law, tax, data privacy and other legal issues involved, and the rapidly evolving cryptocurrency trading environment, it is no wonder that regulators are struggling to develop a consistent approach to mitigate risks.

In our recent article published in *Regulation Asia* (please click [here](#) to access), we:

- highlight the varying regulatory responses to cryptocurrencies by way of examples from various jurisdictions;
- discuss how money laundering and terrorist financing risks associated with cryptocurrencies have caused some regulators to deny access to regulated banking and payment systems by crypto-related firms;
- explore the potential benefits and risks of sovereign digital currencies; and
- set out our thoughts on the future of cryptocurrencies.

LUNCH SEMINAR IN HONG KONG ON 21 JUNE 2018 - GLOBAL REGULATORY PERSPECTIVES ON THE CRYPTO ECOSYSTEM

We will be holding a lunch seminar to discuss the key regulatory perspectives in relation to digital assets and crypto-linked financial products (funds, derivatives and initial coin offerings), as well as the key opportunities and challenges for banks and asset managers in that regard.

The key areas to be covered are:

- Global trends and overview of market participants;
- Evolving regulatory environment and diverse regulatory responses;
- The rise of digital asset fund structures;
- AML/CTF, custody, cyber-security, market misconduct and consumer protection issues; and
- Sovereign currencies and the future of monetary policy.

Date: Thursday 21 June 2018

Time: 1:00 – 2:00 pm, Registration and lunch from 12:30 pm

Venue: Herbert Smith Freehills, 23/F Gloucester Tower, 15 Queen's Road Central, Hong Kong, Please click [here](#) to view map

If you would like to attend please click [here](#) to RSVP.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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