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The Future of Finance: How Regulation and Compliance will Propel Cryptocurrency into the Mainstream Financial Circuit in the United States

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Abstract

The possibility of cryptocurrencies dominating the financial markets in the United States in the proximate future is high and achievable with comprehensive regulations by the Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), Financial Crimes Enforcement Network (FinCEN), Internal Revenue Service (IRS), and Office of the Comptroller of the Currency (OCC) and substantial compliance with the regulations by the cryptocurrency companies, stakeholders, exchanges, investors, traders, consumers, and all participants in cryptocurrency transactions in the United States. Admittedly, the number of companies and organizations accepting cryptocurrencies as payment options in the United States is gradually growing. However, cryptocurrencies are not generally and widely accepted as payment options in the United States due to so many reasons, one of which is lack of extensive regulations addressing different aspects of the cryptocurrency ecosystem and non-compliance with the existing regulations by the developers, issuers of cryptocurrencies and tokens, payment processors, wallet providers, firms, legal and compliance consultants, investors, traders, and customers/users, etc. Holistic regulations of cryptocurrencies in the United States by the regulatory bodies and extensive compliance thereof will propel cryptocurrencies into the mainstream financial circuit where cryptocurrencies just like U.S. dollars will be generally accepted as a legal tender. The potential for cryptocurrency to gain legal tender status in the United States is contingent upon the development of solid regulations and strict compliance, which would, in turn, secure the endorsement of the U.S. Government. This article will briefly explain the introduction of cryptocurrency. Trace the genesis of cryptocurrency, perceptions of cryptocurrency in the United States, discuss striking a balance between regulation and innovation, examine the roles of the U.S. regulatory bodies in cryptocurrency ecosystem. Discuss how extensive and well-defined regulatory environments and substantial compliance with regulations will facilitate the widespread acceptance and integration of cryptocurrencies into the regular financial system in the United States.

Keywords: *Regulations, Compliance, SEC, CFTC, Cryptocurrencies, United States, Financial circuit*

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1. Introduction

The global financial sector is undergoing a significant transformation due to the growing presence of blockchain technology and cryptocurrency. Cryptocurrencies, once viewed as a fringe phenomenon, are gradually gaining global recognition and acceptance as a legitimate and viable assets class in the financial industry. Cryptocurrencies are on the verge of being widely accepted and incorporated into the established financial infrastructure of the United States. Bitcoin, Ethereum, and others are increasingly being recognized and utilized by financial institutions, businesses, and consumers within the traditional financial system.

The rise of cryptocurrencies has been marked by innovations and increasing integration into the mainstream financial system. Cryptocurrencies are becoming more embedded in everyday financial activities in the United States as banks, fintech companies, payment processors, and investment firms are currently offering cryptocurrency-related services.

The creation of new blockchain technologies, the implementation of cryptocurrency-based financial products and services, and the recognition of digital currencies by banks, fintech companies, investment firms, consumers and regulators in the United States signify gradual integration of cryptocurrencies into the mainstream financial circuit in the United States. However, cryptocurrency is not legal tender in the United States.[1] For so many reasons, it is not generally accepted in the United States as a payment option just like U.S. dollars. Though, consumer interest in cryptocurrency has been rising and this may expand into consumer demand for cryptocurrency as an accepted form of payment at checkout.[2]

Robust regulations by United States regulatory bodies addressing various aspects of the cryptocurrency ecosystem, coupled with substantial compliance by stakeholders in the cryptocurrency network, will propel cryptocurrency into the mainstream financial circuit in the United States. Regulatory clarity and adherence by the necessary parties will enable the U.S. Government to exert reasonable control over cryptocurrency, thereby securing full government endorsement. In Executive Order on Ensuring Responsible Development of Digital Assets, President Joe Biden stated as follows:

> *"The United States must ensure appropriate controls and accountability for current and future digital assets systems to promote high standards for transparency, privacy, and security – including through regulatory, governance, and technological measures – that counter illicit activities and preserve or enhance the efficacy of our national security tools."*[3]

2. Genesis of Cryptocurrency

The term "cryptocurrencies" refers to a digital asset, which may be a medium of exchange, for which generation or ownership records are supported through a distributed ledger technology that relies on cryptography, such as a blockchain.[4] According to Richard Trend, Cryptocurrency is a "type of digital currency that uses cryptography to provide a secure payment system."[5] The generation of monetary units and verification of the transfer of funds are regulated by these techniques. Cryptocurrency was created using blockchain technology, which serves as the underlying framework that ensures security, transparency, and decentralization.

The origin of cryptocurrency can be traced to the publication of the Bitcoin whitepaper by Satoshi Nakamoto in 2008, titled "Bitcoin: A Peer-to-Peer Electronic Cash System." This paper described a decentralized digital currency system, removing the need for a central authority by leveraging blockchain technology for transaction security and asset verification. Bitcoin's innovative approach led to the creation of many other cryptocurrencies, changing the financial world by allowing people to make direct transactions without banks.[6] The first

1 *Cf.* Jones, S.J. (2024). "5 Top Crypto Friendly Banks in the United States". *Bankiful.com*. Available at: https://bankiful.com/banking/crypto-friendly-banks/ [Accessed 22 June 2024].

2 *Cf.* Costa, B. (2024). "Is it Time to Accept Crypto?". *Oliver Wyman*. Available at: https://www.oliverwyman.com/our-expertise/insights/2022/feb/is-it-time-to-accept-crypto.html [Accessed 22 June 2024].

3 Biden, J.R. (2022). "Executive Order on Ensuring Responsible Development of Digital Assets". *The White House*. Available at: https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/ [Accessed 6 August 2024].

4 *Ibid.*, 15.

5 Trend, R. (2021). *Cryptocurrency for Beginners*, Michigan: Independent Publisher, p. 11.

6 *Cf.* Satoshi Nakamoto (2008), "Bitcoin: A Peer-to-peer Electronic Cash System,". https://bitcoin.org/bitcoin.pdf, [Accessed 1 June 2024].

cryptocurrency to exist is Bitcoin and it was introduced in 2008 through the whitepaper "Bitcoin: A Peer-to-Peer Electronic Cash System" by Satoshi Nakamoto. Its official launch occurred in 2009 when the first block known as "Genesis Block"[7] was mined.

The first-ever Bitcoin transaction took place on January 12, 2009, when Satoshi Nakamoto sent 10 Bitcoins to Hal Finney, a well-known computer scientist and cryptographer.[8] The first real-world transaction using Bitcoin took place on May 22, 2010, when Laszlo Hanyecz, a programmer and Florida resident, used Bitcoin as a medium of exchange and paid 10,000 BTC for two pizzas.[9] As Bitcoin gained popularity, its market and presence grew and made way for the emergency of other cryptocurrencies and blockchain-based projects.

After Bitcoin's rise to prominence, the world of cryptocurrencies expanded with the advent of altcoins, a term encompassing all digital currencies other than Bitcoin.[10] In April 2011, Namecoin (NMC) became the first of these altcoins to be released.[11] Just a few months later, in October 2011, Charlie Lee introduced Litecoin. Lee's creation sought to tackle some of Bitcoin's known issues, such as the speed of transactions and the ability to scale effectively.[12] In 2012, Ripple was founded by Chris Larsen, David Schwartz, Arthur Britto, and Jed McCaleb. This was done after work began on the XRP Ledger, initially named OpenCoin. The project went through a series of name modifications until it finally adopted the name Ripple.[13]

Ethereum, another notable altcoin, was conceptualized by Vitalik Buterin in 2013 and subsequently launched in 2015. This blockchain-based project significantly advanced blockchain technology by enabling a decentralized platform for executing smart contracts, which are essentially terms written in code. The principal objective of Ethereum was to facilitate the development of decentralized applications (dApps) via these smart contracts.[14]

The introduction of Bitcoin and altcoins marked the beginning of a new era in digital finance, revolutionizing financial ecosystems. Cryptocurrencies exist globally, with Bitcoin being the most well-known. These currencies operate beyond government control, and all transaction information is stored in a decentralized network of files known as the blockchain.

3. Perceptions of Cryptocurrency in the United States

The early perceptions of cryptocurrency were so skeptical as it raised a lot of questions concerning its legitimacy. Bitcoin and altcoins were later associated with illicit activities due to the use of dark web marketplaces.[15] As Bitcoin and altcoin began to rise, media attention grew, and it brought cryptocurrencies into a broader public consciousness. As Bitcoin kept on increasing, the skepticism also remained high.

In 2014, Mt. Gox which was a major Bitcoin exchange collapsed and it reinforced negative perceptions about the security and stability of cryptocurrencies.[16] The exchange, which was once the world's largest Bitcoin exchange, attracted a global user base, including a significant number of Americans. The public and institutional perceptions were altered by the Initial Coin Offering (ICO) boom of 2017.[17] This ICO actually

7 Team Mudrex (2023). What is the Genesis Block in Blockchain? A Beginner's Guide. Available at: https://mudrex.com/learn/what-is-the-genesis-block-in-blockchain/ [Accessed 6 August 2024].

8 Kaur, G. (Ed.) (2024). Who is Hal Finney: Behind the Scenes of the First Bitcoin Transaction. *Curated by* Cornèr, K.L., *Updated* 25 February 2024, Published 23 February 2024. Available at https://cointelegraph.com/learn/hal-finney, [Accessed 23 July 2024].

9 Nicholas Duddy (2024). "The Story Behind Bitcoin Pizza Day: Celebrating a Milestone in Cryptocurrency History". available at https://www.msn.com/en-us/money/markets/the-story-behind-bitcoin-pizza-day-celebrating-a-milestone-in-cryptocurrency-history/ar-BB1mGKxv, accessed on 23rd July,2024.

10 Altcoin Meaning (2024). Available at: https://www.ledger.com/academy/glossary/altcoin#:~:text=The%20first%20altcoin%2C%20Namecoin%20%28NMC%29%2C%20was%20released%20in,designed%20to%20be%20an%20alternative%20currency%20to%20Bitcoin [Accessed 23 July 2024].

11 *Ibid*., 1.

12 *Ibid*., 1.

13 Ripple Labs (2024). Company Overview of Ripple Labs Inc. Available at: https://en.wikipedia.org/wiki/Ripple_Labs [Accessed 6 August 2024].

14 Wikipedia, 2024. Ethereum. Available at: https://en.wikipedia.org/wiki/Ethereum [Accessed 6 August 2024].

15 *Cf*. Ward, A. (2018). *Bitcoin and the Dark Web: The New Terrorist Threat?*. Available at: https://www.rand.org/pubs/commentary/2018/01/bitcoin-and-the-dark-web-the-new-terrorist-threat.html [Accessed 3 July 2024].

16 *Cf*. Investopedia Team (2024). *What Was Mt. Gox? Definition, History, Collapse, and Future*. Available at: https://www.investopedia.com/terms/m/mt-gox.asp [Accessed 4 July 2024].

17 *Cf*. Coin Telegraph (2024). *History of Crypto: The ICO Boom and Ethereum's Evolution*. Available at: https://cointelegraph.com/news/ethereum-ico-boom-history-crypto [Accessed 4 July 2024].

brought in substantial investments into cryptocurrency, but it also resulted into an avalanche scams and regulatory crackdowns.[18]

The public perception got polarized and in the period of 2020 to 2021, there was a shift in institutional perception of cryptocurrencies.[19] People began to invest into cryptocurrencies. Major financial institutions, including banks, hedge funds, and payment companies took part in the investments. For instance, some companies like Tesla, MicroStrategy, and Square have been noted to have purchased a large amount of Bitcoin.[20] More interests in the use of cryptocurrencies from both retail and institutional investors were attracted due to the rise of decentralized (DeFi) and non-fungible tokens.[21] Both public and institutional perceptions of cryptocurrencies are more of positivity. The public perception sees cryptocurrencies not only as speculative investments but also as innovative financial tools that offer potential benefits in terms of transparency, security, and efficiency.[22] On the other hand, institutional investors have continued to explore the potential of cryptocurrencies, with many integrating blockchain technology into their operations and investment portfolios.[23]

Most U.S. companies do not accept cryptocurrency as a medium of exchange for various reasons. However, the adoption of cryptocurrency in the United States is gradually growing, especially among large companies and tech-savvy firms. In 2024, popular U.S.-based companies that accept cryptocurrency payments include Microsoft, Amazon (Indirect), AT&T, Twitch, Tesla, ExpressVPN, Burger King, Subway, KFC, Dallas Mavericks, American Gold Exchange, Best Buy, Ace Jewelers, Jomashop, BitPay Travel, American Cancer Society, Against Malaria Foundation, Delta Airlines, Abercrombie & Fitch, Allbirds, Home Depot, Gamestop, PlayStation Store, AMC Theatres, Chainalysis, Uber, and Uber Eats. Additionally, some non-U.S.-based companies with significant operations in the U.S. that accept cryptocurrency include BMW, Adidas, Ralph Lauren, and IKEA.[24]

As days go by, more companies operating in the U.S. will likely start accepting cryptocurrency as a medium of exchange, especially if the U.S. Government implements detailed regulations on cryptocurrency and stakeholders substantially comply with these regulations. It is interesting to note that the U.S. Government has shown interest in cryptocurrencies and is taking all necessary steps to establish effective regulations aimed at protecting consumers of digital assets, ensuring a stable business environment, and maintaining the financial integrity of the U.S.

In the Executive Order on Ensuring Responsible Development of Digital Assets, dated March 9, 2022, President Biden acknowledged the United States Government's interest in digital assets such as cryptocurrency. He noted that the United States has an interest in responsible financial innovation, expanding access to safe and affordable financial services, and reducing the cost of domestic and cross-border funds transfers and payments, including through the continued modernization of public payment systems.[25]

Former President Donald Trump, who was previously a critic of cryptocurrencies, has recently embraced the crypto industry. At the Bitcoin 2024 conference in Nashville, Tennessee, Trump announced a series of pro-crypto policies, including the creation of a U.S. bitcoin stockpile, the establishment of a crypto advisory council,

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18 *Cf. Ibid.*

19 *Cf.* KPMG (2022). "Crypto: Rise in Institutional Interest". Available at: https://kpmg.com/xx/en/home/insights/2022/12/crypto-rise-in-institutional-interest.html [Accessed 4 July 2024].

20 *Cf.* Remitano (2024). "Why MicroStrategy, Tesla, and Top Companies are Big on Bitcoin". https://remitano.com/forum/bi/post/11542-why-microstrategy-tesla-and-top-companies-are-big-on-bitcoin [Accessed 4 July 2024].

21 *Cf.* McBurney, P. (2021). "The Rise of Non-Fungible Tokens". *AB Magazine*. Available at: https://abmagazine.accaglobal.com/global/articles/2021/apr/business/the-rise-of-non-fungible-tokens.html [Accessed 4 July 2024].

22 *Cf.* Porter, T. (2024). Talking to Clients About Crypto Risks: A Guide for Financial Professionals. [online] Investopedia. Available at: https://www.investopedia.com/risks-of-cryptocurrencies 8401477#:~:text=Communicating%20Crypto%20Risks%20in%20Client%20Meetings&text=Financial%20advisors%20should%20communicate%20the,in%20value%20in%20previous%20years [Accessed 4 July 2024].

23 *Ibid.*

24 Putkaradze, L. (2024). "A Complete List of Companies that Accept Cryptocurrency in 2024". [online] *B2BinPay*. Available at: https://b2binpay.com/en/a-complete-list-of-companies-that-accept-cryptocurrency-in-2024/ [Accessed 8 August 2024].

25 Biden, J.R. (2022). p. 1 (see footnote 4).

and the appointment of a crypto-friendly SEC chair. These policy announcements mark a significant shift in Trump's stance towards cryptocurrencies and highlight the evolving perception of digital assets in the United States.[26]

In 2024, the perception of cryptocurrency in the United States has seen a significant shift, exemplified by the recent embrace of the cryptocurrency industry by major companies, financial institutions, stakeholders, investors, and individuals. Therefore, there is a need for the United States Government to deploy all-encompassing regulatory framework on digital assets such as cryptocurrency through the enactment of new laws and regulations by the relevant legislative and regulatory bodies. These laws and regulations should be clear and unambiguous to maintain stable financial markets, provide security for consumers and investors, and prevent cryptocurrency related crimes. This will no doubt attract many more companies, financial institutions, stakeholders, investors and individuals in the U.S. to embrace the cryptocurrency industry.

4. Striking a Balance between Regulation and Innovation

The adoption of digital assets such as cryptocurrency in the U.S. financial industry presents great opportunities and challenges. Thus, the need to strike a balance between fostering innovation and ensuring market safety and transparency. The driving force behind economic growth and technological advancement could be regarded as innovation. In the area of financial markets and cryptocurrencies, the effects of innovation could be seen based on the encouragement in the development of new financial products, services, and also technologies which can improve its efficiency, inclusivity, and accessibility. There is actually a need to have a safe and transparent market in United State. For this to be achieved innovation has to be balanced and once this is done, there will be a safe and transparent market. The effectiveness of the financial system lies on trust and this trust has to be maintained. The best way to handle this is through regulation. Regulation will not only protect the investors, prevent fraud but also it will ensure market stability.

However, there are some challenges in balancing regulation and innovation. These challenges are but not limited to:

a. **Regulatory Uncertainty:** This is one of the main challenges in balancing regulation and innovation. In a situation where there is regulatory uncertainty, some startups and innovators find it very difficult to fix themselves in. This will definitely deter investments and equally lead to slow down technological progress. A typical example of lack of regulatory clarity is the ongoing debate on whether cryptocurrencies are securities or commodities. While the SEC view cryptocurrencies as securities, CFTC considers some cryptocurrencies as commodities. This lack of a unified regulatory framework and clarity challenges investors about the legal status of their assets and companies in ensuring compliance with the regulations.[27]

b. **Overregulation versus Under Regulation:** There can be an existence of excessive compliance costs and stifling creativity due to overregulation which can inhibit innovation. There can also be an existence of market abuse, increased illicit activities or even financial instability due to under regulation. There should be a right balance, and this will enhance both safe and conducive environment to innovation.

c. **Rapid Technological Advancements:** Technological advancements have continued to increase and its pace in the cryptocurrency space has become a problem to the regulatory framework. It is important that regulators keep on adapting to the new developments in order to ensure that regulations remain important and workable. This of course has to be done without stifling innovation.

Notwithstanding these challenges in balancing regulation and innovation, there are some strategies which can be used in balancing this regulation and innovation. These strategies are but not limited to:

a. **Collaborative Regulatory Approach:** This is one of the strategies in balancing regulation and innovation. Regulators can be in collaboration with industry stakeholders in order to have a regulation that can protect

[26] Goodman, J. (2024). "Trump Bashes Harris Over Crypto, Vows to Boost Bitcoin. [online] *Politico*. Available at: https://www.politico.com/news/2024/07/27/trump-takes-aim-at-harris-over-crypto-00171516 [Accessed 8 August 2024].

[27] Wynn, S. (2023). "Regulatory Outlook: What will the SEC and CFTC be Focused on in 2024?". [online] *The Block*. Available at: https://www.theblock.co/post/268830/regulatory-outlook-what-will-the-sec-and-cftc-be-focused-on-in-2024 [Accessed 8 August 2024].

the consumers without in anyway trying to stifle innovation. Without collaboration, regulators can hardly gain a deeper understanding of the technology and business strategies in cryptocurrency industry.

b. **Regulatory Sandboxes:** This is also one of the strategies in balancing regulation and innovation. When regulatory sandboxes are implemented, it will make the innovators test new products and services in a safe testing environment under the supervision of the regulators. It will help to identify earlier the potential risks and adjustments that would be made on time before full-scale implementation.

c. **Dynamic and Adaptive Regulation:** Regulators have to be flexible and adaptive. Flexibility will make them to be continuous in updating regulatory frameworks which will keep pace with technological advancements. This could be possible through involving in ongoing research, monitoring, and also having a dialogue with industry stakeholders. The regulators need to engage in continuous update to address the rapid developments in cryptocurrency industry.

5. Regulatory Bodies in the United States that Regulate Digital Assets

The regulatory landscape for cryptocurrencies in the United States is complex and at the same time evolving. This multi-agency approach aims to address the diverse and rapidly changing nature of digital assets to protect consumers, investors and safeguard the financial integrity of the U.S economy. The key regulatory bodies are:

a. **Securities and Exchange Commission (SEC):** SEC regulates securities, including determining whether a particular digital asset qualifies as security under the Howey Test.[28] This test originates from the 1946 U.S. Supreme Court case SEC v. Howey Co.[29] According to this test, a transaction qualifies as a security if it involves: (1) an investment of money, (2) in a common enterprise, (3) with an expectation of profits, and (4) derived primarily from the efforts of others. The agency's focus is on protecting investors and maintaining fair, orderly, and efficient markets. The SEC has brought enforcement actions against different cryptocurrency projects and exchanges for unregistered securities offerings. For example, the SEC filed a lawsuit against Ripple Labs Inc. and its executives for conducting an unregistered securities offering by selling XRP, a digital asset, raising over $1.3 billion.[30]

b. **Commodity Futures Trading Commission (CFTC):** CFTC oversees the U.S. derivatives markets, including futures, options, and swaps.[31] It has also taken enforcement actions against fraudulent schemes and unregistered trading platforms and has helped in regulating cryptocurrency derivatives trading. For instance, in CFTC v. Tether and Bitfinex (2021), the CFTC imposed a civil monetary penalty on Tether for making a misleading statement that stablecoin was fully backed by U.S. dollars.[32]

c. **Financial Crimes Enforcement Network (FinCEN):** FinCEN enforce anti-money laundering (AML) and counter-terrorism financing (CTF) regulations.[33] It requires cryptocurrency exchanges and wallet providers to register as Money Services Businesses (MSBs) and comply with AML/CTF reporting and record-keeping requirements.[34] In 2017, FinCEN imposed fine on cryptocurrency exchange *BTC-e* for violating U.S. anti-money laundering laws.[35]

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[28] *Cf.* Graton, P. (2024). "Securities and Exchange Commission (SEC) Defined, How it Works". *Investopedia*, 12 July. Available at: https://www.investopedia.com/terms/s/sec.asp (Accessed: 5 July 2024).

[29] SEC v. W.J. Howey Co. (328 U.S. 293). Available at https://supreme.justia.com/cases/federal/us/328/293/ (Accessed: 5 July 2024).

[30] Securities and Exchange Commission v. Ripple Labs Inc. *et al.*, No. 1:2020cv10832 - Document 973 (S.D.N.Y. 2024). Available at Securities and Exchange Commission v. Ripple Labs Inc. *et al.*, No. 1:2020cv10832 - Document 973 (S.D.N.Y. 2024) :: Justia (Accessed: 9 August 2024).

[31] *Cf.* Whistleblower, (2024). "About the CFTC and Emforcement". https://www.whistleblower.gov/aboutcftc, accessed on 5th July, 2024.

[32] Commodity Futures Trading Commission (CFTC) (2021). *CFTC Orders Tether and Bitfinex to Pay Fines Totaling $42.5 Million*, Release Number 8450-21, 15 October. Available at: https://www.cftc.gov/PressRoom/PressReleases/8450-21 (Accessed: 5 July 2024).

[33] *Cf.* FinCEN, (2024). "What We Do". Available at https://www.fincen.gov/what-we-do, (Accessed: 5 July 2024).

[34] Financial Crimes Enforcement Network (FinCEN) (2013). *Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*, FIN-2013-G001, 18 March. Available at: FIN 2013 G001 (fincen.gov) (Accessed: 9 August 2024).

[35] Financial Crimes Enforcement Network (FinCEN) (2017). *FinCEN Fines BTC-e Virtual Currency Exchange $110 Million for Facilitating Ransomware, Dark Net Drug Sales*, 26 July. Available at: FinCEN Fines BTC-e Virtual Currency Exchange $110 Million for Facilitating Ransomware, Dark Net Drug Sales | FinCEN.gov (Accessed: 9 August 2024).

d. **Internal Revenue Service (IRS):** The role of IRS is to classify cryptocurrencies as property for tax purposes, subjecting them to capital gains tax.[36] It has issued guidelines on the tax treatment of cryptocurrency transactions and has also taken enforcement actions. This is to ensure compliance with reporting requirements.[37] IRS enforces compliance through audits and investigations.

e. **Office of the Comptroller of the Currency (OCC):** The role of OCC is to charter, regulate, and also to supervise all national banks and federal savings associations.[38] One of the functions of this is to provide guidance on how banks can interact with cryptocurrencies. This also includes holding and managing digital assets.

f. **Financial Industry Regulatory Authority (FINRA):** FINRA has the role of regulating brokerage firms and exchange markets.[39] One of its major functions is to oversee the conduct of brokerage firms dealing in cryptocurrencies. This will also ensure compliance with securities laws.

6. Regulatory Actions on Cryptocurrencies in the United States

In the United States, various regulatory actions on cryptocurrencies have been instrumental in curtailing fraudulent activities in cryptocurrency transactions and fostering a more secure future for finance. Without these regulatory measures, the future of finance in the United States would be at significant risk. Federal financial regulators and law enforcement agencies have taken a number of actions related to the emergence of virtual currencies, including providing regulatory guidance, assessing anti-money-laundering compliance, and investigating crimes and violations that have been facilitated by the use of virtual currencies.[40] Some of the regulatory actions include:

a. **SEC Enforcement against ICOs:** SEC has enforced regulations against those who violate securities laws, particularly in the context of Initial Coin Offerings (ICOs). These regulatory actions have been crucial in curtailing fraud associated with cryptocurrencies. The SEC's efforts have included both enforcement actions and investor protection measures. The commission has pursued numerous enforcement actions against companies and individuals involved in ICOs, ensuring that fraudulent practices are addressed, and that the integrity of the financial market is maintained. The results of these actions have included penalties, disgorgement of funds, and requirements to register the tokens as securities to ensure compliance with the laws and regulations.

One of the notable cases is the SEC's action against Telegram. In 2018, Telegram Group Inc. carried out an Initial Coin Offering (ICO) to fund the creation of Telegram Open Network (TON) blockchain. Through investors, Telegram Group Inc generated around $1.7 billion by selling digital tokens known as "Grams". The SEC filed a lawsuit against Telegram contending that the sale of Grams constituted an unregistered security and Telegram Group Inc violated U.S. securities laws for failure to register the sale of Grams with SEC. The court ruled in favor of the SEC and Telegram agreed to return $1.2 billion to investors and pay an $18.5 million civil penalty as part of a settlement with the SEC in June 2020.[41]

Similarly, Kik Interactive Inc., conducted an ICO in 2017, raising nearly $100 million from investors through the sale of its digital token, "Kin." SEC sued Kik, contending that the sale of Kin constituted an unregistered

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36 *Cf.* IRES, (2024). "Frequently Asked Questions on Virtual Currency Transactions". Available at https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions (Accessed: 5 July 2024).

37 Internal Revenue Service (IRS), (2014), *IRS Virtual Currency Guidance: Notice 2014-21,* 25 March. Available at: Notice 2014-21 (irs.gov) (Accessed: 9 August 2024).

38 *Cf.* Office of the Comptroller of the Currency (OCC), (2024). "Who We Are". available at https://www.occ.gov/about/who-we-are/index-who-we are.html#:~:text=The%20Office%20of%20the%20Comptroller,and%20agencies%20of%20foreign%20banks, (Accessed: 5 July 2024).

39 *Cf.* Financial Industry Regulatory Authority (FINRA), (2024). "About FINRA". available at https://www.finra.org/about, (Accessed: 5 July 2024).

40 U.S. Government Accountability Office (GAO), (2014). *Report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate*, GAO-14-496, May. Available at https://www.gao.gov/assets/gao-14-496.pdf (Accessed: 9 August 2024).

41 Securities and Exchange Commission v. Telegram Group Inc. *et al.*, No. 1:2019cv09439 - Document 227 (S.D.N.Y. 2020). Available at https://law.justia.com/cases/federal/district-courts/new-york/nysdce/1:2019cv09439/524448/227/ (Accessed: 9 August 2024).

security and Kik Interactive Inc., violated U.S. securities laws for failure to register the sale of Kin with SEC. The court found that the Kin ICO was an unregistered securities offering and ordered Kik to pay a $5 million penalty.[42]

SEC's actions against Telegram and Kik clarified that digital token sold in ICOs are considered securities under U.S. law and must be registered with SEC as securities before being offered to the public. These cases also show the SEC's role in protecting investors from fraudulent and unregistered offerings and ensuring that companies provide adequate disclosures about their operations and financial conditions.

b. **IRS Stance on Cryptocurrency Taxation:** Cryptocurrencies have been classified as property for tax purposes by the Internal Revenue Service. This actually indicates that transactions involving cryptocurrencies are subject to capital gains tax. IRS has issued detailed guidance on how taxpayers should report cryptocurrency transactions. The IRS also requires taxpayers to report all taxable events, and these events may be the sale, exchange, or use of cryptocurrency for goods and services. The IRS has also worked hard to step up its enforcement efforts to ensure compliance with tax laws. IRS has sent warning letters to taxpayers suspected of underreporting their cryptocurrency transactions and conducting audits. It was noted that in 2019, the IRS sent over 10,000 letters to taxpayers, and reminded them of their tax obligations which were related to cryptocurrency transactions.[43]

7. Importance of Regulation and Compliance in Cryptocurrency Financial Markets in the United State

Regulation is essential in any society in order to keep things in the right positions and ensure that the system operates efficiently and fairly. The importance of regulation and substantial compliance in the rapidly evolving and complex cryptocurrency financial markets in the United States cannot be over emphasized. The main purposes of regulations and compliance are:

a. **Enhancement of Market Stability and Integrity:** Regulation and compliance are important in cryptocurrency markets in the United States. Cryptocurrency operates on a blockchain-based decentralized network that makes it so hard to trace the owners of the transactions because the system encourages privacy and anonymity. These characteristics can be exploited for fraudulent activities and market manipulation by criminal-minded individuals in society. To mitigate these risks, adequate regulation and substantial compliance are necessary. These measures will enable the investors, consumers and other market participants to operate under a clear set of rules that will reduce the chances of fraudulent activities, market manipulation, excessive volatility and offer support to financial stability, enhance transparency, and ensure equal protection for all participants in the United States cryptocurrency financial markets. SEC's increased enforcement actions against crypto entities aims to curb these practices and provide a more secure cryptocurrency investment environment.[44]

Regulations require cryptocurrency exchanges and related services to adhere to a set rules that prevent market manipulation and insider trading. Substantial compliance with cryptocurrency regulations ensures that cryptocurrency markets remain stable and free from manipulation.

b. **Investors and Consumers Protection:** Regulations play crucial role in curtailing fraudulent activities like Ponzi schemes and unregistered securities offerings in the United States cryptocurrency industry. SEC helps to protect investors from fraudulent schemes and financial losses by enforcing stringent rules and taking legal action against companies that violate securities laws in the United States. SEC's actions against companies like Ripple and Telegram clearly show how regulation can prevent the sale of unregistered securities to protect investors from potential financial harm.

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[42] U.S. Securities and Exchange Commission v. Kik Interactive Inc., 492 F. Supp. 3d 169 (S.D.N.Y. 2020). Available at https://casetext.com/case/us-sec-exch-commn-v-kik-interactive-inc (Accessed: 9 August 2024).

[43] Cf. IRES, "Frequently Asked Questions on Virtual Currency Transactions,"https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions (Accessed: 5 July 2024).

[44] *Cf.* U.S. Securities and Exchange Commission, "Crypto Assets and Cyber Enforcement Actions," https://www.sec.gov/securities-topics/crypto-assets (Accessed: 2 July 2024).

Through comprehensive regulations and substantial compliance, consumers of cryptocurrencies in the United States can be protected from significant financial risks posed by cryptocurrencies scams. For instance, the BitConnect scam defrauded investors of approximately $2 billion by operating a Ponzi scheme that promised guaranteed returns through proprietary technology, which in reality, used funds from new investors to pay earlier ones, leading to substantial financial losses and emotional distress for many Americans.[45] The 2024 VPNRanks report noted that cryptocurrency scam losses in the United States in 2023 amounted to $1.56 billion, affecting over 55,000 individuals and predicts that the average loss per victim in US cryptocurrency scams may reach $39,000 in 2025. This rise is driven by more people adopting cryptocurrency, increasing scam potential.[46]

These cases underscore the need for regulations and enforcement actions to protect consumers in the U.S. cryptocurrency market. Adequate regulations and substantial compliance will ensure that the cryptocurrency market operates transparently and securely, preventing financial loss by the consumers of cryptocurrency in the United States.

c. **Financial Crimes Prevention:** Due to the anonymity and decentralized nature of cryptocurrency, it can be used for various financial crimes and illicit activities such as terrorism financing, money laundering, and even tax evasion etc. To combat these risks, laws and regulations are needed to enhance the oversight of cryptocurrency transactions and prevent these markets from becoming a haven for financial crimes in the United States.

With the provisions of laws and regulations in the United States subjecting cryptocurrency exchanges, wallet providers, and other related entities to Know Your Customer (KYC) protocols and Suspicious Activity Reporting (SAR), financial crimes committed via cryptocurrency will be reduced. These measures will enable identification and trace of individuals involved in cryptocurrency transactions. By mandating KYC and SAR, regulators ensure that financial institutions within the cryptocurrency industry such as cryptocurrency exchanges, wallet providers, and other related entities can detect and report suspicious activities to the appropriate authorities. This will curb illicit activities like money laundering, terrorism financing, and other illicit activities facilitated by cryptocurrency transactions in the United States.

d. **Promotion of Market Confidence and Broader Adoption:** An effective regulation and compliance can create market confidence and equally bring encouragement for broader adoption of cryptocurrencies in the United States. A lucid regulation can bring the attraction of institutional investors. This is because, once they perceive any atom of risk in a particular market, they will not be encouraged to enter such a market. For instance, the regulation of stablecoins and other crypto assets under security law of UDPN[47] has attracted traditional financial institutions.

Digital asset issuers, exchanges and trading platforms, and intermediaries whose activities may increase risks to financial stability, should, as appropriate, be subject to and in compliance with regulatory and supervisory standards that govern traditional market infrastructures and financial firms, in line with the general principle of "same business, same risks, same rules.[48] Market confidence in cryptocurrency transactions will increase, leading to broader adoption in the future, if consumers in the United States observe the consistent applications of general principle of 'same business, same risks, same rules' in cryptocurrencies transactions in the United States.

President Biden in the Executive Order on Ensuring Responsible Development of Digital Assets emphasized the urgent need for sound regulatory oversight and consumer protection within the digital assets space. Highlighting the significant risks posed by the inherent complexities and vulnerabilities of digital assets, the President stated that:

45 U.S. Securities and Exchange Commission (2021). "SEC Charges Global Crypto Lending Platform and Top Executives in $2 Billion Fraud". Press Release, 1 September. Available at: https://www.sec.gov/newsroom/press-releases/2021-172 (Accessed: 9 August 2024).

46 Ehtesham, H. (2024). *Cryptocurrency Scam Statistics: Alarming $1.8 Billion Loss Expected in 2025 Amid Rising Scams!*, Last updated July 31, 2024. Available at: https://www.vpnranks.com/resources/cryptocurrency-scam-statistics/#average-loss-per-victim [Accessed 9 Aug. 2024], pp. 12, 14.

47 *Cf.* Universal Digital Payments Network (UDPN) (2024). Available at: https://www.udpn.io [Accessed 2 July 2024].

48 Biden, J.R. (2022), p. 2 (see footnote 4).

"We must protect consumers, investors, and businesses in the United States. The unique and varied features of digital assets can pose significant financial risks to consumers, investors, and businesses if appropriate protections are not in place. In the absence of sufficient oversight and standards, firms providing digital asset services may provide inadequate protections for sensitive financial data, custodial and other arrangements relating to customer assets and funds, or disclosures of risks associated with investment."[49]

8. Future Predictions on Cryptocurrency in the United States

With adequate regulations and substantial compliance in cryptocurrency transactions, the future of finance in United States looks promising. The impact of these regulations could shape various future predictions and trend within the United States cryptocurrency financial markets. These include:

a. **Increased Institutional and Non-Institutional Adoption:** The institutional adoption of cryptocurrencies can be boosted through regulatory clarity that provides a secure environment for investors. Clear regulations make it easier for institutions to include cryptocurrencies in their portfolios, which, in turn, enhances market liquidity and stability. The institutional adoption is likely to lead to a more mature and resilient cryptocurrency market in the United States. For instance, the approval of Bitcoin ETFs by the SEC has already paved the way for more institutional investment in cryptocurrencies, indicating a trend towards mainstream acceptance.[50] The institutional adoption of cryptocurrencies will increase the growing culture acceptance of cryptocurrencies by individuals especially, younger generations who are more tech-savvy and open to digital innovations.

b. **Enhanced Consumer Protection and Market Integrity:** Regulatory changes in the U.S. are expected to significantly shape the future of cryptocurrency by enhancing consumer protection and ensuring market integrity. This will create a safer investment environment for retail investors. These regulatory changes will likely increase consumer protection measures, such implementing mandatory disclosures and enforcing stricter penalties against fraudulent activities. This will help build investors' confidence and encourage broader participation in the cryptocurrency markets, leading to a more secure and inclusive financial environment.

c. **Development and Adoption of Central Bank Digital Currencies (CBDCs):** Cryptocurrency landscape could be influenced through development and potential implementation of CBDCs by the Federal Reserve.[51] The impact of these CBDCs is that it could coexist with decentralized cryptocurrencies. This will in turn provide a government-backed digital alternative that promotes financial inclusion and reduces reliance on physical cash.

d. **Evolution of Decentralized Finance (DeFi):** DeFi platforms will continue to grow and as it does, a regulatory framework needs to adapt in order to address the unique challenges and opportunities they present. Future developments in this area are likely to include the clarification of the legal status and operational requirements for DeFi projects. This will help to legitimize this sector and attract more traditional financial institutions.[52] There should be clear guidelines on AML (Anti-Money Laundering) and KYC (Know Your Customer) compliance for DeFi platforms to help to mitigate risks associated with illicit activities, promote greater trust in the sector and encourage broader adoption of DeFi by consumers and institutional investors in the United States.

e. **Global Coordination and Standardization:** There is a higher probability that U.S. will likely play a leading role in fostering global coordination and standardization of cryptocurrency regulations. It will create the

49 *Ibid.*

50 Torpey, K. (2024). "SEC Approves Spot Ether ETFs". *Investopedia*, Updated July 23. Available at: https://www.investopedia.com/sec-approves-spot-ether-etfs-8678873#:~:text=The%20U.S.%20SEC%20has%20approved,on%20the%20matter%20in%20May (Accessed: 2 August 2024).

51 FM Contributors (2023). "The Rise of Central Bank Digital Currencies (CBDCs): Impacts on the Crypto Market". *Finance Magnates*. Available at: https://www.financemagnates.com/cryptocurrency/coins/the-rise-of-central-bank-digital-currencies-cbdcs-impacts-on-the-crypto-market (Accessed: 5 July 2024).

52 *Cf.* Richardson, K. (2023). "How DeFi and Traditional Banking can Collaborate for Mutual Benefit". *Forbes*, 19 January. Available at: https://www.forges.com/sites/theyec/2023/07/19/how-defi-and-traditional-banking-can-collaborate-for-mutual-benefit/ (Accessed: 5 July 2024).

impact of making harmonized international regulations. These regulations will create a more predictable environment for global cryptocurrency operations and reduce regulatory arbitrage. Initiatives like the Financial Action Task Force's (FATF) guidelines on virtual assets and service providers aim to create consistent AML and CTF standards worldwide.[53]

9. Recommendations

a. **Collaboration between Regulatory Bodies and Stakeholders:** The regulatory bodies should, as a matter of necessity, collaborate with stakeholders in cryptocurrency industry to develop effective, realistic, and workable regulations for the U.S. cryptocurrency market. These agencies should plan and organize roundtable discussions, workshops and conferences with the stakeholders, allowing experts to explain how their technologies work. Through these interactions, regulators can gain valuable insights into technological advancements, emerging trends, and practical challenges faced by the cryptocurrency industry in the U.S. The regulatory bodies should also conduct public consultations with stakeholders during the regulatory process to ensure that the regulations consider the practical realities of the industry. Involving stakeholders in the drafting process will help create balanced and well-informed regulations.

b. **Provision of Comprehensive Regulations:** Regulatory bodies, such as the Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), Financial Crime Enforcement Network (FinCEN), the Internal Revenue Service (IRS) in the United States should work together closely to develop holistic regulations for cryptocurrency. These regulatory bodies should establish a unified platform where they can collectively discuss and coordinate their proposed regulatory steps. Each regulatory body should focus on the areas relevant to its expertise while ensuring that its guidelines align with those of other regulatory bodies to avoid any conflict. The regulations should be clear and devoid of ambiguity to prevent multiple interpretations that could lead to confusion and inconsistency in enforcement.

c. **Stakeholder Compliance with Regulations:** Stakeholders, including cryptocurrency exchanges, financial institutions, investors, and all participants in cryptocurrency transactions, should voluntarily and substantially comply with the established regulations to ensure that the digital market environment in the U.S. aligns with the objective set forth by the regulatory bodies. Stakeholders should implement sound internal controls and compliance procedures, such as the integration of Know Your Customer (KYC), Enhanced Due Diligence (EDD), Customer Due Diligence (CDD) processes in cryptocurrency transactions, to meet the regulatory requirements effectively.

d. **Improve enforcement mechanisms:** Given the complexity of cryptocurrency and blockchain technology, the regulatory bodies should be provided with adequate funding and staffing to effectively carry out their enforcement duties. When necessary, these agencies should hire experts with deep understanding of cryptocurrency, blockchain technology, and financial markets to enhance their monitoring and enforcement activities.

e. **Balancing Regulatory Strictness to Retain Investors' Confidence:** Given that cryptocurrency and blockchain technology are still developing, it is important that the regulatory bodies should strike a balance in the level of strictness applied when establishing comprehensive regulations. Over-regulation could discourage investment, stifle innovation, and drive investors away to more favorable jurisdictions. Therefore, the regulatory framework should be flexible enough to accommodate the rapidly evolving nature of cryptocurrency and blockchain technology. When necessary, regulators should revisit and adjust regulations to ensure that they remain relevant as the market develops. By maintaining this balanced regulatory environment, the U.S. can retain its competitive edge while ensuring that the market remains well-regulated.

10. Conclusion

The future of finance in the United States is likely to involve the mainstream adoption of cryptocurrencies, driven by regulatory clarity and compliance. As regulators provide clearer guidelines and frameworks for

[53] *Cf.* FATF (2024). "Topic". *FATF*. Available at: https://www.fatf gafi.org/en/topics.html#:~:text=identifying%20high%2Drisk%20jurisdictions,CFT%20regimes%20has%20proved%20effectve (Accessed: 5 July 2024).

cryptocurrency use, institutional investors and traditional financial institutions will increasingly enter the market, leading to greater adoption and integration into the mainstream financial circuit.

With the evolution of cryptocurrency and blockchain technology, the future of finance becomes increasingly intertwined. Cryptocurrencies are poised to play a transformative role in the financial ecosystem of the United States when the digital asset market matures. Regulation has a vital role in shaping the future of cryptocurrencies and this will make the future of finance in United States to be promising. Comprehensive regulations and substantial compliance by the stakeholders and all necessary parties in cryptocurrency transactions is key to unlocking the full potential of cryptocurrency in the U.S. financial industry.

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