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The International Legal Status of Cryptocurrencies and Challenges for Financial Regulation

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ABSTRACT

The article furnishes a comprehensive appraisal of the international legal standing of cryptocurrencies, alongside sketching the chief difficulties encountered by contemporary fiscal regulatory frameworks. The piece uncovers the economic and judicial essence of cryptocurrencies and establishes their function and position in the evolution of the current monetary arrangement. The method of creation and growth of cryptocurrencies is investigated. Main varieties of crypto-assets are synopsised and arranged. Particular focus is dedicated to the scrutiny of methods for establishing the legal standing of cryptocurrencies across sundry world jurisdictions, which permitted a detailed comparative legal examination. The function of global bodies in shaping norms for governing digital currencies is outlined. The chief obstacles and lacunae in worldwide legal governance of cryptocurrencies are pinpointed. Avenues for enhancing the legal control of cryptocurrencies globally are justified.

KEYWORDS

digital assets, financial system, cryptocurrency, financial regulation, legislative initiatives, international mechanisms, monetary policy.

Introduction

The digitalization of finance is driven by profound transformations of the financial system under the influence of innovative technologies, including the proliferation of cryptocurrencies and blockchain solutions that are changing traditional approaches to payments, investment, and value preservation. At the same time, the lack of unified international legal regulation, fragmentation of national approaches and the growth of cross-border financial flows create new challenges for state control, financial stability and security, which necessitates a comprehensive scientific understanding of this issue (Kiskis, 2024).

The rapid proliferation of cryptocurrencies and related technologies, including blockchain, is significantly outpacing the pace of legal regulation, which leads to new risks in the area of financial stability. These risks include the use of cryptocurrencies in illegal activities, difficulty in tracking transactions, increased market volatility, and cybersecurity threats. At the same time, traditional financial control mechanisms are not always effective in the context of the decentralized nature of cryptoassets, which reinforces the need to develop new approaches to their regulation (Ramos, & Ellul, 2024, pp. 1-7).

Literature Review

Modern scientific research on cryptocurrencies demonstrates considerable attention to the issues of their legal nature, international regulation and impact on the financial system. For example, M. Kiskis (2024) proposes to consider blockchain through the prism of private law. His approach is important because it allows integrating cryptoassets into the existing legal system without completely dismantling it. S. Ramos and J. Ellul (2024, pp.1-7) explore the role of distributed ledger technologies in ensuring compliance with new EU regulations, in particular the AI Act, and emphasize the potential of blockchain as a compliance tool. M. A. Mohammed, C. De-Pablos-Heredero, and J. L. M. Botella (2025, pp. 53-88), in their bibliometric analysis, prove that cryptoasset research is rapidly evolving towards integration with central bank digital currencies (CBDCs.) Their approach is important because it is the first to systematically combine cryptocurrencies and government digital currencies in a single analytical plane. In the study by J.K. Roy and H.F. Zaher (2025), cryptoassets are viewed through the prism of sustainable finance. The authors argue that blockchain forms the basis for so-called “regenerative finance” models that go beyond traditional financial regulation. This opens a new direction in international law - the combination of financial regulation and environmental policy.

Much of the research focuses on the assessment of new regulatory frameworks, in particular the MiCA regulation in the European Union. The work of T. van der Linden and T. Shirazi (2023) substantiates that the main obstacle to the integration of cryptoassets into the financial system is the uncertainty of their legal status. A similar position is held by L. Hrabčák and M. Štrkolec (2024, p. 27-45), who emphasize that even after the introduction of European norms, the problem of fragmentation of regulation and the need for further improvement of legal mechanisms remain.

A separate block of studies is devoted to a comparative analysis of the approaches of different states to the legal definition of cryptocurrencies. Von Hafe et al. (2025) conduct a comparative analysis of the legal regimes for blockchain regulation in Europe and show that even within the harmonized approach (MiCA) there are significant differences in law enforcement between states. R. V. Grijalva-Salazar et al. emphasize (2025) that tax and fiscal approaches to cryptocurrencies remain unsystematic and largely depend on national policies. In this context, R.-E. Lazăr (2025, pp. 323-336) draws attention to the fact that even modern regulatory initiatives do not keep pace with the pace of development of the crypto market, which leads to legal gaps and risks to financial stability.

In F. Allen et al. (2022) substantiates the thesis of a structural change in the global financial architecture under the influence of cryptoassets. M. Aquilina et al. (24, pp. 1-27) and K. Schuler et al. (2024, p. 213-242) analyze in detail how DeFi reproduces the financial functions of traditional markets without centralized control. I. H.-Y. Chiu (2023) and P. Paech (2023) emphasize the need for international regulation of cryptoassets, especially in the context of the EU (MiCA). A. Turillazzi et al. systematize the risks of decentralized finance (2023).

Problem Statement

The purpose of the study is to comprehensively analyze the international legal status of cryptocurrencies, to identify the peculiarities of their legal regulation in different countries of the world and to substantiate ways to improve financial regulation in the context of digital transformation of the economy.

To achieve this goal, several interrelated tasks need to be solved, including:

- to study the essence and nature of cryptocurrencies and approaches to their legal definition in different jurisdictions;
- to determine the role of international organizations in shaping regulatory policy;
- identify key challenges facing modern financial systems.

Methods and Materials

The research methodology is based on the integrated use of general scientific and special legal knowledge, which guarantees a comprehensive analysis of the international legal status of cryptoassets and the challenges of financial supervision in the digitalized economy.

The theoretical and methodological basis of the study is an interdisciplinary approach which integrates the provisions of financial law, public international law and economic theory of digital assets. The application of the dialectical method made it possible to reveal the evolution of cryptocurrencies as a legal and economic phenomenon in the context of digitalization of financial relations, and also to identify contradictions between the innovative nature of cryptoassets and traditional legal structures (Zetzsche et al., 2023).

The systemic approach was used to analyze cryptocurrencies as a component of the global financial ecosystem that functions in cooperation with national and international regulatory institutions. This made it possible to determine the place of cryptoassets in the structure of the financial market and assess their impact on financial stability (Avgouleas, & Seretakis, 2023, pp. 421-438).

The comparative legal method has become the main research tool, as it made it possible to compare approaches to the legal regulation of cryptocurrencies in different jurisdictions, in particular in the European Union, the United States and Asian countries. This method examined legislative acts, regulatory practices, and international standards, which made it possible to identify trends toward unification and, at the same time, preservation of national identity (Zetzsche et al., 2023).

The formal legal method was used to analyze legal acts and international documents, including the MiCA Regulation, FATF recommendations and other acts regulating the circulation of cryptoassets. This made it possible to determine the peculiarities of the legal qualification of cryptocurrencies and identify gaps in the current legal regulation (Avgouleas, & Seretakis, 2023, pp. 421-438).

The systematization methods were used to structure the study and summarize the results achieved. The method of generalization is used to draw conclusions and practical advice.

Results and Discussion

Cryptoassets are a multifaceted phenomenon of the digital market. The most well-known classification includes three main categories: payment cryptocurrencies, utility tokens, and security tokens. Payment cryptocurrencies serve as an electronic means of exchange and value storage. Utility tokens provide access to certain services or functions in the blockchain ecosystem and are subject to special provisions on digital products and transactions (Schuler et al., 2024, pp. 213-242). Security tokens represent the right to a share in assets or profits and are considered financial instruments subject to securities regulation.

Organizing cryptoassets and studying their legal nuances is a significant step towards the formation of effective national regulation (Table 1).

Table 1. Classification of cryptoassets and their legal characteristics

Type of cryptoasset	Examples	Legal characteristics
Payment cryptocurrencies	Bitcoin, Litecoin, Bitcoin Cash	Serve as a medium of exchange and store of value. Do not require a license, but are subject to financial monitoring regarding AML/KYC.
Utility tokens	Ethereum (partially), Binance Coin (for the ecosystem)	Provide access to services within the blockchain ecosystem. Legal status depends on the specific function of the token and the country's legislation
Security tokens	Polymath, tZERO	Rights to assets or profits. Subject to regulation by securities regulators.
Stablecoins	USDT, USDC, DAI	Pegged to a national currency. May be subject to banking regulations
Decentralized financial products (DeFi)	Aave, Compound, Uniswap	Offer lending, exchange, and other financial services. Regulators are seeking new technology-neutral approaches.

Source: Compiled by the author based on (Wronka, 2024, p. 417-426; Davenport, & Usrey, 2023, pp. 55-70; Romero-Castro et al., 2025; Atree, & Tripathy, 2025)

As international examples show, the growing share of cryptocurrencies in global financial turnover poses challenges to macro and financial stability. According to the Financial Stability Board (FSB), the scale and structural vulnerabilities of the crypto market may pose a risk to the global financial system, and traditional supervisory mechanisms in individual jurisdictions are not sufficiently aligned to ensure effective control over these assets (FSB Statement on International Regulation and Supervision of Crypto-asset Activities, 2022). In response to these risks, the FSB has adopted an international regulatory framework for cryptoassets with the principle of "one activity, one risk, one regulation" aimed at harmonizing supervisory approaches in different countries (FSB finalises global regulatory framework for crypto-asset activities. 2023).

In this context, the need for international regulation of cryptocurrencies is not only a matter of legal technique, but also a matter of maintaining financial stability, protecting investors and consumers, and creating a level playing field for technological innovation [8]. International initiatives, such as the FSB framework, aim to harmonize standards and coordinate public policies, which should ensure a balance between innovation and risk control on a global scale.

International legal status of cryptocurrencies

Over the past decade, cryptocurrencies have become an important element of the global financial system, combining technological innovation, economic value, and legal challenges. Their rapid spread and integration into traditional financial markets have posed a number of challenges for international organizations, central banks and national regulators to determine their legal status, ensure financial stability and protect market participants (Benson, et al. 2024, pp. 37-61).

The international legal status of cryptocurrencies determines the legal position of digital assets in the global financial environment, regulates the interaction of states, financial institutions and users, and outlines the framework for controlling cross-border transactions. The absence of a unified approach to the classification of cryptocurrencies and different legal interpretations in different jurisdictions create legal uncertainty, which is manifested in market volatility and regulatory arbitration (Wronka, 2024, p. 417-426).

The main international approaches to determining the legal status of cryptocurrencies in different jurisdictions are presented in Table 2.

Table 2. International Approaches to Determining the Legal Status of Cryptocurrencies

Jurisdiction / Organization	Legal status of cryptocurrencies	Key provisions
United States (SEC, CFTC, FinCEN)	Securities (SEC), commodities (CFTC), payment instruments (FinCEN)	Classification depends on the function of the crypto asset; regulatory approach varies by agency
EU (MiCA, 2024)	Tokens that are not electronic money; electronic money; stablecoins	A single regulatory framework has been established for all member states; classification depends on the function
Switzerland	Digital assets; may function as means of payment or securities	Flexible classification to support DeFi technologies
FSB (Financial Stability Board)	Financial instruments posing a risk to financial stability	Recommendations on international regulation and coordination among jurisdictions
FATF	Digital assets subject to AML/KYC controls	Proposals for regulating cryptocurrency exchanges and platforms

Source: Compiled by the author based on (FSB Statement, 2022; About FinCEN; MiCA Crypto Assets Regulation in the EU in 2024. 2024; The FATF)

The European Union has formed the most comprehensive and systematic model of cryptocurrency regulation through the MiCA (Markets in Crypto-Assets) Regulation. This act creates a single legal framework for all member states, ensuring harmonization of rules for cryptoasset issuers and service providers (Linden, & Shirazi, 2023).

Switzerland is considered to be one of the most progressive jurisdictions in the field of cryptoassets regulation. Its approach is based on the principle of technological neutrality, according to which cryptocurrencies are considered a type of digital assets (property), and regulation depends on their economic function (Grijalva-Salazar et al., 2025]. The Singapore model is characterized by pragmatism: the state actively supports the development of fintech, but at the same time limits the risks to the financial system (Hrabčák, & Štrkolec, 2024, pp. 27-45). This necessitates further international coordination to ensure effective control over cryptoassets and the stability of the global financial system.

Challenges for the financial regulation of cryptocurrencies

Legal uncertainty is one of the key characteristics of the current stage of development of the cryptocurrency market, which directly affects its functioning and stability. The lack of harmonized international regulatory standards leads to fragmentation of approaches between jurisdictions, which creates a complex and unstable legal environment for market participants [Romero-Castro, et al., 2025].

The current development of cryptocurrencies and related financial technologies is significantly transforming the traditional financial system. The decentralized nature of cryptoassets, the absence of a single issuer and the global nature of their circulation complicate the application of classical legal mechanisms of supervision and control. In these conditions, financial regulators are faced with the need to adapt the regulatory framework to new technological realities, ensure financial stability and investor protection (Wronka, 2024, pp. 417-426). Table 3 systematizes the key areas of challenges for the financial regulation of cryptocurrencies, reveals their essence, potential risks and possible ways to overcome them.

An analysis of the main challenges to the financial regulation of cryptocurrencies shows that their impact goes far beyond a single segment of the financial market and covers the fundamental principles of the banking system, tax policy, and state supervision mechanisms. Particular attention should be paid to the risks associated with the development of decentralized finance and legal uncertainty, which may lead to increased financial instability and reduced effectiveness of regulatory instruments (Atree, & Tripathy, 2025).

Table 3. Key Challenges in the Financial Regulation of Cryptocurrencies

Challenge Area	Nature of the problem	Potential risks	Solutions
Impact on the banking system and financial stability	Cryptocurrencies reduce the role of banks as financial intermediaries and alter the mechanisms of money circulation	Decreased bank liquidity, weakened monetary policy, systemic financial risks	Integration of crypto assets into the financial system, development of central bank digital currencies (CBDCs), enhanced supervision
Decentralized Finance (DeFi)	Lack of centralized control, use of smart contracts for financial transactions	Fraud, cyber threats, money laundering, lack of user protection	Introduction of new approaches to DeFi regulation, international coordination, development of RegTech
Tax regulation	Uncertainty regarding the classification of crypto assets and tax rules	Tax evasion, administrative complexity, legal uncertainty	Unification of tax approaches, clear definition of cryptoasset status, international cooperation
Technology-neutral regulations	Traditional legislation does not account for the specifics of blockchain technologies	Regulatory gaps, legal uncertainty, stifling of innovation	Development of flexible legislation, adaptation of the regulatory framework, harmonization of standards at the international level

Source: Compiled by the author based on (Chiu, 2023; Zetzsche, et al., 2023; Wronka, 2024, pp. 417-426; FSB Statement on International Regulation and Supervision of Crypto-asset Activities, 2022; FSB finalises global regulatory framework for crypto-asset activities, 2023; CFTC)

Ways to integrate international cryptocurrency standards into national legislation

The integration of international standards into national legislation is a key element of effective regulation of cryptocurrencies and digital finance. The current development of cryptoassets is characterized by high dynamics, decentralization and cross-border nature, which complicates control at the level of individual states. In this regard, national legislation requires a combination of global recommendations (FATF, IMF, FSB) with adapted internal mechanisms that take into account the economic and technological characteristics of the country (FSB Statement, 2022).

Key areas and specific proposals for the adaptation of international standards into national regulation, which allow for the creation of a transparent, secure and flexible legal system, are presented in Table 4.

Table 4. Integration of international standards for regulating cryptocurrencies and digital finance at the national level

Areas	Content	Expected outcome
Implementation of international standards	Adaptation of key provisions of the FATF, IMF, and FSB into national legislation	Increased market transparency, reduced legal uncertainty, and regulatory arbitrage.
Technology-neutral regulations	Regulation of the economic substance of crypto-assets, including DeFi and digital financial products.	Ensuring legislative flexibility and supporting innovation without compromising financial stability.
International coordination	Active cooperation among regulators, information sharing, central bank participation within the BIS framework, and the use of IMF recommendations	Improving the effectiveness of oversight, reducing systemic risks
Tax regulation	Harmonizing the tax regime for different categories of cryptoassets, determining the timing of income recognition and the tax base.	Minimizing regulatory arbitrage, promoting a legal market and transparency of transactions.

Areas	Content	Expected outcome
Educational and institutional measures	Training for regulators, professional development for financial institutions regarding cryptoassets, and the establishment of think tanks.	Enhancing the competence of regulatory authorities, ensuring a rapid response to new financial risks.

Source: Compiled by the author based on (FSB finalizes, 2023; CFTC; About FinCEN; MiCA Crypto Assets Regulation in the EU in 2024, 2024; The FATF)

An analysis of the recommendations presented shows that effective harmonization of legal regulation of cryptocurrencies requires a combination of international standards and adapted national control mechanisms. The introduction of technology-neutral norms and active international coordination simultaneously supports innovation and reduces financial risks (Schuler et al., 2024, pp. 213-242). Tax regulation and increasing the competence of regulators create additional prerequisites for the stable development of the crypto market. Thus, the comprehensive implementation of these recommendations ensures a balance between the development of digital financial technologies and the protection of financial stability.

Conclusion

The study of the international legal status of cryptocurrencies and modern approaches to financial regulation has shown that cryptoassets are a complex economic and legal phenomenon. To effectively regulate cryptocurrency markets, government agencies and international regulators must take into account both legal and economic aspects of digital assets. First of all, it is important to ensure the gradual adaptation of international standards, such as FATF recommendations, Financial Stability Board principles, and IMF guidelines, to national legislation. The second important area is the development of technology-neutral rules that regulate the economic nature of assets. This approach allows for legislative flexibility and prompt response to innovative financial products.

Government authorities should focus on the balance between innovation and financial stability. This involves increasing market transparency, controlling systemic risks, and strengthening international coordination to avoid regulatory arbitrage and reduce potential threats to the banking system. The use of international cooperation platforms such as the BIS, IMF, and FATF will help create an effective regulatory ecosystem to ensure innovative development and financial stability at the global level.

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