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THE CONCEPT AND ORIGIN OF TOKENS (CRYPTOCCURENCIES) AND THEIR REGULATION

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ABSTRACT

This article explores the issues of the emergence and formation of cryptocurrencies and tokens, their types, the need for legal regulation of digital relations in the framework of the development of the digital economy and blockchain technologies. The main purpose of the article is to reveal the historical factors of electronic relations, the role and influence of the pandemic circumstances on cryptocurrency, the advantages in entrepreneurship and online legal relations, as well as the main problems of improving the perception and application of law associated with the digitization of data. Researched and carried out from the point of view of science, international and national legal acts. The issues of improving the understanding of cryptocurrency and the prospects for the development of these legal relations within the digital economy in accordance with the legislation of the Republic of Uzbekistan were studied.

KEYWORDS: *Digital Asset, Cryptocurrency, Token, Consequences Of The Pandemic, Crypto Exchange, Property, Financial System, Investors, Cross-Border Transfers, Securities.*

INTRODUCTION

Currently, the issues of regulation of cryptoassets and the digital economy are widely recognized by most countries. In addition, it is important to determine the law, the procedure for resolving disputes regarding the interpretation and application of the rules governing tokens and cryptocurrencies, given their cross-border nature. Our Republic also attaches great importance to the development of the digital economy and the areas dependent on it. This is evidenced by the Decree of the President of the Republic of Uzbekistan “On approval of the Strategy “Digital Uzbekistan-2030” and measures for its effective implementation” dated July 24, 2021, the Decree of the President of the Republic of Uzbekistan “On measures to develop the digital economy in the Republic of Uzbekistan” dated July 4, 2018 Decree of the President of the Republic of Uzbekistan “On the Development Strategy of New Uzbekistan for 2022-2026” dated February 28, 2022, Decree of the President of the Republic of Uzbekistan “On measures to organize the activities of crypto-exchanges in the Republic of Uzbekistan” dated September 03, 2018, Order of the Director of the National Project Management Agency under the President of the Republic of Uzbekistan “On amendments and additions to Appendix No. 1A of the

Regulations on the procedure for licensing the activities of crypto-exchanges" dated November 22, 2021.

At present we are living in a period when the world economy is undergoing many problems. Due to persistent COVID-19 outbreaks, limited assistance programs, and residual supply constraints, the global economic recovery is expected to be slowed. Various hazards, such as new virus strains, unpredictable inflation forecasts, and financial hardship, darken the future. The economic recovery will be more difficult than in the past if certain countries require debt restructuring. Commodity price variations may become more volatile as a result of climate change. As a result of the pandemic's growth in inequality, social tensions may worsen. These difficulties underscore the need for increased immunization coverage, debt sustainability, climate change and growing inequities, and economic diversification.

Materials and methods

Before the pandemic, humanity survived the global economic crisis of 2008 which increased distrust between government authorities and commercial banking institutions. The crisis resulted in the banking system nearly collapsing and insolvent institutions being bailed out, culminating in low interest rates, zero inflation, as well as a total absence of financial stimulus. Therefore, measures are being taken to create a whole new banking system that is not dependent on banks **[1].** Furthermore, in 1994 Bill Gates claimed that while banking will be required in the future, banks themselves would become outdated **[2].** Consequently, cryptocurrencies and its intended Peer-to-Peer financial system grew in popularity at a period of widespread suspicion and doubt. During this turbulent period, the first cryptoccurency as Bitcoin was developed. It allowed stakeholders including individuals and businesses to conduct transactions without relying on banks, permitting them to function outside of traditional banking **[3].**

All cryptocurrencies maintain similar concept of Satoshi Nakamoto who was the inventor of Bitcoin. In 2008, Nakamoto published his white paper, effectively establishing the groundwork for cryptocurrency. The fundamental features outlined in Bitcoin's whitepaper are generally the same for alternative cryptocurrencies known as alternative coins. These characteristics include having a decentralized network, using a peer-to-peer connection, requiring internet access, and incorporating cryptography into their technology and accounts **[4].**

Cryptocurrencies are new and cutting-edge digital money with the goal of utilizing a banking system aimed at a mass adoption strategy, displacing or replacing national sovereign fiat money, and overpowering current banking systems with a single virtual exchangeable asset that is traded worldwide and has a worldwide marketplace valuation **[5].** Currently available cryptocurrencies have a number of qualities that include the following:

- It's a peer-to-peer connection and data exchange mechanism, thus it's naturally decentralized (Some exceptions exist as cryptocurrencies developed on a national scale).
- Have a total number or supply of coins that can be generated or supplied that is limited and predictable.
- Uses a public database (often referred to as a Blockchain) or server to store track of transactions and cryptocurrency transactions, minimizing repeated expenditures.

- Include a calculation mechanism, sometimes known as "Proof of Work," that proves the blockchain's integrity and the transaction data included in subsequent blocks. In most situations, "Miners" supply processing power to the network. Because most cryptocurrencies have a finite number of coins in circulation, the algorithm's complexity and computational resource requirements scale with the number of coins mined.
- Use encryption for protected storage **[6].**

Bitcoin is one of the most well-known instances of cryptocurrency, but newer coins are being introduced to the market on a daily basis through Initial Coin Offerings (ICOs).The term "ICO" (Initial Coin Offerings) refers to a type of cryptocurrency used by businesses to raise funds **[7].** It's worth highlighting that there are so many businesses that it's challenging for investors to identify a useful and promising idea that truly requires blockchain technology. Each startup has its own set of tokens. They, in turn, may have different issue and purpose rules. As a consequence, we have whole new digital assets. Legislators, for their meantime, are beginning to pay greater attention to ICOs, so it's important to categorize a startup's token before investing in it. Otherwise, you may have difficulties in the future while collecting the advantages of your assets. [7]

Research results

We will go through the three major kinds of tokens available and provide some examples.

Custom tokens

Custom tokens are a type of virtual currency that allows you to utilize a business or platform's services and goods. These currencies are sometimes referred to as appcoins and are similar to amusement park tokens. The most prevalent sort of token is this one. It includes current cryptocurrencies such as Bitcoin and Ethereum, as well as the majority of ICOs that produce this sort of cryptocurrency. Steemit, Brave, Adex, Sia, and others are among the latter. When a user has a user token, they may use it to pay for platform services and engage with other participants. Typically, all cryptocurrencies may be purchased and traded for other coins or fiat currency on exchanges. Mining can be used to earn some of the tokens. **[8]**

Share tokens

Many people relate an ICO to an initial public offering (IPO). In certain circumstances, such a comparison proves to be rather accurate. To finance new firms and expand the network, share tokens are required. They don't offer services, but they do invite you to participate in the platform's life and development. **[9]**

A token share is comparable to a common share. Its owner may be eligible for dividends, which are a portion of the company's net earnings. Furthermore, if a sufficient number of stocks are available, the investor can participate in the company's development by voting. In typical joint-stock companies, only significant equity holders may vote, but in an ICO, any owner of a token-share, regardless of its quantity, has the ability to vote. Of course, people who purchased more tokens during the ICO or on the stock exchange will have a greater impact on the company's future development. **[10]**

There are businesses that integrate many tokens at the same time. Sia is one of them. It offers a bespoke Siacoin (SC) token, as well as Siafund, which is utilized as a share token. Digital shares are only issued during the ICO and will not be issued in the future. As a result, they may only be acquired on the exchange once they have been raised. **[11]**

The Digix organization is another example. This platform's share token holders are eligible for prizes. The fee from operations on the Digix Network Gold network is used to provide dividends. Holders of online shares can submit suggestions for the network's growth or vote on current ones. **[12]**

Credit tokens

At first view, credit tokens resemble stock tokens. During the ICO, the issuing business issues a specified quantity of coin. When an investor buys a token like this, he or she receives interest for a set period of time based on the amount invested. This type of digital asset guarantees the owner to a potential return. **[13]**

The Steemit platform has already successfully deployed a similar method. Her voice has a Russian analogue quality to it. Users who want to share material with other members can utilize this decentralized network. The Steemit network uses credit tokens called Steem Dollars (SD), although Steem tokens are the platform's primary cryptocurrency. They may be used to buy SD cards. **[14]**

You can, for example, chooseZrCoin. This might not be the initial, but it is certainly one of the very first blockchain-based possibilities. Because the token is linked to real-world output, investors may utilize it in a variety of ways:

- Owners can redeem the option at any moment, receiving a refund of their investment plus interest;
- Trade for firm shares;
- Exchange for an actual product.

Because of the versatility of ICO tokens, additional forms of assets can be introduced. There is a belief that practically all assets will be digitized in a few decades, however there are several challenges. The rapid expansion of token sales has prompted some to believe that they are simply a new tool for unscrupulous persons to defraud customers, drawing the attention of authorities all around the world **[15].** Regulators are just now starting to pay attention to firms that use ICOs to obtain funds. The primary stumbling block is that cryptocurrencies have yet to be assigned a legal status. They are utilized as currencies, stocks, loans, and other financial instruments, which make further regulation difficult.

Although there are currently no specific regulations governing ICOs, some organizations are refusing to take investments from US people in order to prevent negative consequences. The difficulty is that even user tokens might be regarded as shares since contributors support initiatives primarily to make a profit, but the outcome is mostly determined by the organization's founders. **[16]**

When it comes to regulating crytpocurrencies the EU, fo example, is mostly taking a "wait and see" strategy and has been unwilling to enact any further regulations. However, the EU has the ability to mitigate particular hazards connected with cryptocurrency via regulation, since it will allow for a broader toolset managing the potential risks. Valdis Dombovskis, the EU's financial chief, has mentioned that if an international response is not forthcoming, the EU will progress up its game and consider EU-wide regulation **[17].** The EU's regulatory goals are to create a framework that allows technology to grow and thrive while also assessing the risks associated with cryptocurrencies **[18]** (Suberg). Nevertheless, under the current regulatory climate in the EU, the lack of legislative clarity and consensus puts cryptocurrency users at danger.

Take into account the Eloplay platform as an example. You may use this platform to arrange e-sports competitions using decentralized funding. The project's primary audience consists of gamers, tournament organizers, and sponsors. Their token is primarily interested in gaining access to the platform in order to engage with other participants, rather than receiving immediate benefit from the purchase or sale of cryptocurrencies. **[19]**

Another problem with cryptocurrencies is that legislation and politicians frequently lag behind technology advances and are unsure how to control unique phenomenon in their early phases. The absence of regulatory agreement may be seen in the classification of digital currencies, where one country may define them as assets or commodities while another classifies them as money transfers or virtual products and services. As a result, the specific norms and regulations vary from country to country. Furthermore, the gap is reflected in the various legal classifications all around world, with certain nation governments classifying cryptocurrencies as lawful, while others classifying cryptocurrencies as unlawful or restricting their use.On the 19th and 20th of March, 2018, a G20 conference was convened in Argentina to address the issue of lack of regulatory agreement. The conference committed to strengthening of cryptocurrency, emphasizing the need for a comprehensive and worldwide strategy to cryptocurrency regulation **[20].**

CONCLUSION

Meanwhile, if cryptocurrencies are classified as securities, all investors will be subject to taxation, similar to how dividends from stocks are taxed. This, however, is not totally accurate. The main purpose of a user token is to grant access to the platform in order to use the company's products and services. And demand, which is linked to the number of individuals who are directly interested in the platform and its capabilities, already determines the value of such a coin. Given that ICOs will be strictly regulated, only the user token stands a chance of avoiding it, as it is unrelated to the company's revenue. If investors seek to make a profit during the fundraising process, this token will be purchased in the future by customers who are interested in the company's product and do not use cryptocurrencies for the purpose of earning. An analysis of all of the above factors in the formation and development of cryptocurrencies and tokens will affect the correct regulation of norms and law enforcement in the field of crypto-exchange legal relations and the digital economy.

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