



PRACTICE OF REGULATING THE CRYPTO-ASSET MARKET IN THE DIGITAL ECONOMY

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Article history:	Abstract:
Received: 20 th February 2026 Accepted: 17 th March 2026	This article analyses the role of blockchain technologies and crypto assets in enabling decentralized and transparent management of financial transactions. The results of the analysis show that investor financial safety and protection are ensured through licensing of crypto-assets, implementation of AML and KYC systems via virtual asset service providers (VASPs), as well as pilot testing of experimental projects using the "regulatory sandbox" mechanism. The article emphasises the importance of temporary tax benefits and preferential fiscal mechanisms in the field of crypto assets to stimulate innovative companies and shape the digital financial ecosystem.
Keywords: Digital economy, blockchain, crypto assets, stablecoin, VASP, AML/KYC, licensing, sandbox, pilot projects, financial stability, investor protection, digital payment systems.	

INTRODUCTION

In the history of technological evolution, the emergence of the Internet overcame geographical barriers and made information exchange faster and more secure. This technological revolution radically transformed the structure of society, economic relations and the geopolitical situation, creating a solid foundation for the formation of the digital economy.

After the development of the Internet, the next significant stage in global network evolution has been the emergence of blockchain technologies and cryptographic assets. This technological convergence enables not only information exchange but also value transfer mechanisms to be restructured on a decentralized, transparent and trust-based foundation. This, in turn, creates the need to adapt the institutional framework of financial relations to the current global economic and geopolitical conditions.

Over the past decade, the rapid development of digital payment systems has led to significant changes in the global financial infrastructure. These tools provide convenient and fast transactions, stimulate the improvement of banking infrastructure, and significantly increase the freedom of movement of funds. Based on the above, it can be noted that blockchain technologies and cryptographic assets have laid the groundwork for shaping a new paradigm of the value chain. They enable decentralized and trustworthy management of data among various participants, thereby increasing the efficiency of cross-border financial operations.

At the same time, these technologies also bring new challenges related to financial stability and consumer protection. From this perspective, the approaches of states to regulating crypto-assets are of decisive importance. State policy on the regulation of cryptocurrencies and blockchain technologies is aimed

at striking a balance between, on the one hand, encouraging innovation and, on the other hand, ensuring financial stability, managing risks and strengthening financial infrastructure. In particular, the sovereign digital currency (CBDC) project being developed by most countries' central banks is a practical expression of this policy, enabling fast and secure cross-border payments, increasing the transparency of value movements and stabilising the digital financial market.

These studies not only assess technological and financial efficiency, but also make it possible to develop strategies to increase the effectiveness of cryptocurrency and blockchain regulation mechanisms, ensure financial stability, protect consumer rights, and enhance the security of cross-border transactions.

LITERATURE REVIEW

According to E. Avgouleas, regulating the crypto market increases its reliability and effectively protects investor rights. Studies show that in many countries the regulation of crypto-assets is insufficient or inconsistent, which increases risks in the global financial system. Avgouleas emphasises that introducing a robust legal and regulatory framework is important for ensuring market stability, reducing risks in the financial system, and strengthening investor confidence [2]. At the same time, the flexibility and innovativeness of regulatory mechanisms serve to enhance a country's financial stability.

B. Maurer believes that crypto and blockchain technologies have a significant impact on society and financial systems. Research shows that the absence of regulation limits market activity and turns cryptocurrencies mainly into speculative assets [3]. In our opinion, strong, transparent and flexible regulatory



mechanisms are necessary to encourage innovation, ensure market stability and reduce financial risks. At the same time, this also demonstrates the socio-economic benefits of regulation for society.

N. Courtois points out that cryptocurrencies need to be analysed in depth from the perspective of criminal law and law enforcement. Studies show that regulating the cryptocurrency market is important in reducing risks such as fraud, scams and money laundering [4]. The article emphasises that effective regulation makes the market safer and more reliable, protects investor rights and significantly reduces risks in the financial system. Regulation mechanisms for the crypto-asset market should comply with international standards and encourage innovation.

According to the authors of the *Journal of Economic Criminology*, it is necessary to study the regulation of crypto-assets not only from a national but also from an international perspective. Research shows that because cryptocurrencies are global in nature, effective regulation cannot be based solely on national measures but must involve international cooperation and compliance with standards [5]. Such an approach increases market security, ensures financial stability and strengthens investor confidence.

According to B. Zhang and the team at the Cambridge Centre for Alternative Finance, the effectiveness of crypto-asset regulation should be evaluated on the basis of empirical research. Studies show that a data-driven regulatory system increases the reliability and efficiency of decision-making [6]. At the same time, international regulators can better monitor the market, reduce financial risks, and ensure global market stability.

According to J. Zhang, the "regulatable digital currency" model provides control mechanisms through blockchain technology [7]. Research shows that such a model helps integrate digital currencies into the financial system and increases the safety and transparency of their regulation.

Z. Wang notes that risks and problems in blockchain-based financial systems can be reduced through effective regulation [8]. In our opinion, regulatory mechanisms at both international and national levels increase market stability and serve to reduce financial risks.

According to Sh. Yakubova, legal regulation of cryptocurrencies is one of the important directions of the modern digital economy. The study notes that the decentralised and anonymous nature of crypto-assets distinguishes them from traditional financial relationships and complicates state control mechanisms [9]. At the same time, a complete lack of regulation of

cryptocurrencies can lead to financial crimes, money laundering and violations of investor rights.

According to R. Sobirova and J. Eshonqulov, although cryptocurrencies as new technological financial instruments are important in the financial system, their legal regulation creates many complexities. It is noted that today there are more than nine thousand types of cryptocurrencies in the world, and their decentralised nature creates serious conflicts with the infrastructure of traditional currencies and financial institutions [10]. This situation makes it difficult for state authorities to develop clear legal mechanisms for regulating cryptocurrencies.

According to D. Khalimov, cryptocurrencies are a new means of payment and exchange that emerged as a product of technological progress, and unlike the traditional monetary system, they are forming as a decentralised and liquid system [11]. In our opinion, although the circulation of crypto-assets occupies an important place in the economy, the legal status and regulation mechanisms are not sufficiently defined, so the legislative framework in this area needs to be improved.

According to I. Farmonov, the legal regulation of cryptocurrencies and crypto-exchanges in Uzbekistan is of great importance in the process of digitising the national economy [12]. In our opinion, crypto-exchanges must strictly comply with laws against money laundering and terrorist financing, because unregulated activity can lead to financial crimes.

S. Abdullayeva notes that although crypto-assets have become an integral part of the global financial system, they create new opportunities for transnational crime. It is noted that as a result of the rapid development of digital technologies, the number of crimes committed through crypto-assets has increased significantly over the past five years, and in 2023 the volume of illegal funds exceeded 20 billion US dollars [13]. This shows the need to improve legal regulatory mechanisms to reduce the risk of financial crimes.

RESEARCH METHODOLOGY

The research uses legal-normative analysis, comparative analysis, empirical data comparison methodology, and also analyses national and international practices of regulating the crypto-asset market. In addition, criteria of volatility, transaction speed and financial security were evaluated by testing pilot projects on stablecoins.

ANALYSIS AND RESULTS

The theoretical foundations of cryptocurrency regulation are mainly based on the principles of financial



stability, investor protection and economic security. Regulatory mechanisms for crypto-assets are aimed at reducing potential risks in the digital asset market, among which preventing negative phenomena such as speculative behaviour, fraud, financial crimes and money laundering is of particular importance. Thus, regulation not only increases market reliability but also serves to ensure legal protection for investors. Different approaches are used to regulate the crypto-asset market in foreign countries, and they differ depending on each country's economic policy, the level of development of its financial system and its attitude to risks (Table 1).

For example, some countries like China consider crypto-assets as a high-risk source and pursue a policy

of almost complete prohibition. Such an approach, while aimed at protecting the financial system from external risks and speculative capital flows, may slow down the development of innovative technologies.

On the other hand, in developed countries such as the United States, crypto-assets are strictly regulated. Here, the activities of market participants are supervised by organisations such as the Securities and Exchange Commission and the Financial Crimes Enforcement Network. The main goal of this model is to develop innovations within a clear legal framework without completely restricting them, while maximising investor protection.

Table 1
Approaches to regulating the crypto-asset market in foreign countries

Type of approach	Country	Main features	Advantages	Disadvantages
Complete prohibition	China	Crypto trading and mining banned, strong state control	High financial security	Innovation slows down
Strict regulation	USA	Supervision via SEC and FinCEN, AML/KYC, taxation	Strong investor protection	Complex laws, difficult for business
Liberal (supportive)	Switzerland	Favourable environment for crypto, "Crypto Valley", clear legislation	Rapid innovation development	Relatively high risk level
Liberal (supportive)	Singapore	Licensing via MAS, business-friendly conditions	Attracts international investment	Strict monitoring required
Hybrid (balanced)	European Union	MiCA regulation, uniform standards, investor protection	Balanced development	Complex and time-consuming to implement

Also, countries such as Switzerland and Singapore have chosen a liberal approach to the crypto-asset market, focusing heavily on supporting innovation and attracting investment. In this model, a clear and understandable legal framework is created, and a favourable environment is formed for start-ups and technology companies. As a result, these countries are becoming global centres of the crypto industry.

Furthermore, as can be seen in the example of the European Union, some regions are applying a balanced (hybrid) approach. In this approach, along with developing the crypto-asset market, strict control mechanisms are also introduced. In particular, a comprehensive regulatory system is being formed that combines uniform standards, a licensing system and investor protection measures.

In general, the experience of foreign countries shows that there is no single universal model for effectively regulating the crypto-asset market. The most appropriate approach is to find a balance between supporting innovation and ensuring financial security, taking into account national interests.

The rapid development of the crypto-asset market creates various risks alongside new opportunities in the global financial system. Therefore, many foreign countries have developed and put into practice special mechanisms to effectively regulate this area. These mechanisms serve to ensure the transparency of transactions involving crypto-assets, prevent financial crimes, protect investor rights and strengthen market stability (Figure 1).



Licensing	Authorization system for crypto exchanges, brokers, and service companies	Controlled by government agencies, requires a permit to operate
AML/KYC requirements	Identification of clients and monitoring of financial transactions	Identity verification, detection of suspicious transactions, reporting obligation
Tax policy	Taxation of crypto-asset income	Capital Income Tax, Income Tax, Reporting Obligation
Protection of investor rights	System for protecting the rights and interests of investors	Information disclosure, fraud protection, compensation mechanisms
Technological monitoring	Monitoring and analyzing blockchain transactions	Monitoring transactions through special programs, identifying risks

Figure 1. Mechanisms for regulating the crypto-asset market and their characteristics

The mechanisms listed in this table operate in an interconnected manner to effectively regulate the crypto-asset market. First of all, the licensing system serves as one of the main filters for entering the market. Through it, only companies that meet the specified requirements are granted the right to operate. This reduces the number of illegal entities and increases market reliability. At the same time, licensing allows state authorities to exercise effective supervision over market participants. In this regard, licensed organisations that work with crypto-assets – virtual asset service providers (VASPs) – are seen as an important tool for regulating this system.

A Virtual Asset Service Provider (VASP) is a licensed organisation that deals with crypto-assets, and its activities are mainly based on AML (Anti-Money Laundering) and KYC (Know Your Customer) principles.

Through this approach, the VASP restricts anonymous and uncontrolled transactions, thereby strengthening the security of the financial system. At the same time, transparent and reliable transactions are carried out under the supervision of national regulators, which increases market confidence and investor protection. The legalisation of the activities of such organisations makes it possible to identify each user, monitor financial transactions and quickly detect suspicious operations. Transactions are recorded and analysed transparently through blockchain technology, which reduces financial risks such as fraud and money laundering. At the same time, VASP activities are carried out under the supervision of national regulators, and compliance with standards is ensured through licensing and certification systems. Figure 2 below illustrates the operation of VASPs and the mechanism for regulating crypto-assets.

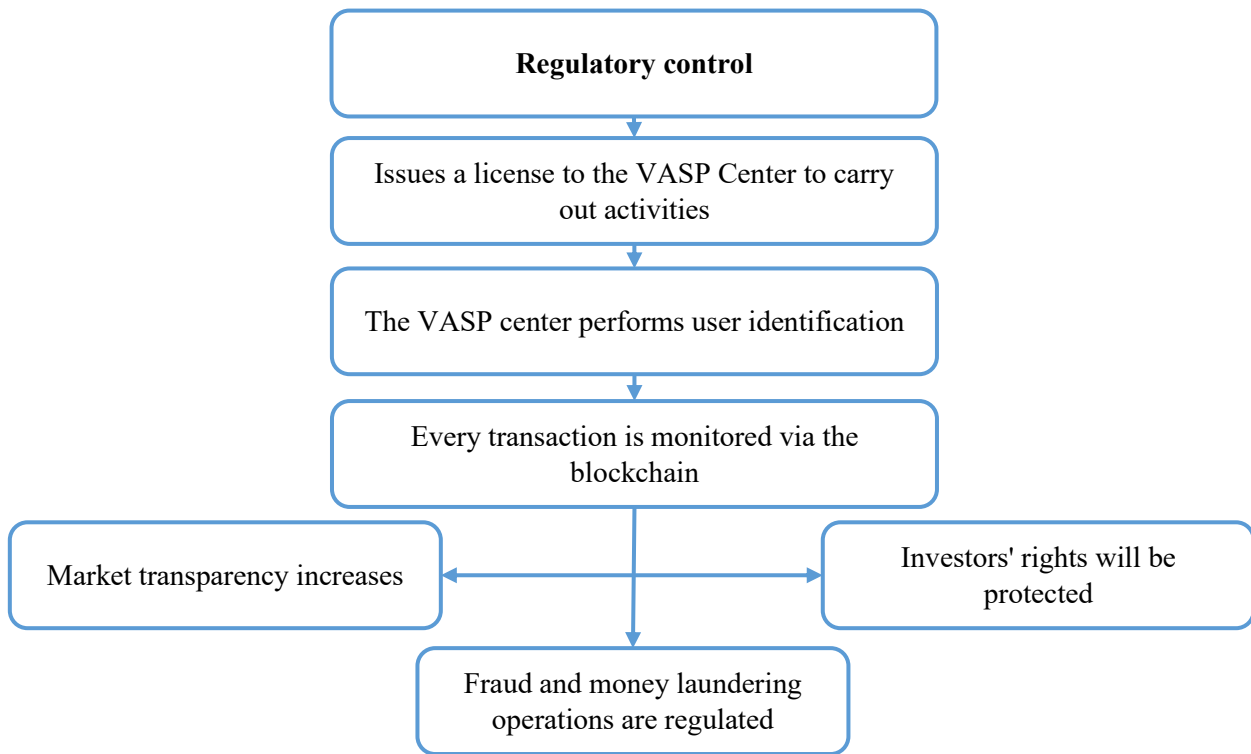


Figure 2. Mechanism for regulating crypto-assets

According to this mechanism, the VASP acts as a central intermediary between users, transactions and the regulator. Users are identified based on KYC requirements, and all operations are continuously monitored through the AML system. Transactions are recorded transparently using blockchain technology, and when suspicious activity is detected, an automatic verification or blocking mechanism is triggered. At the same time, VASP activities are controlled by the national regulator through a licensing and certification system. The source of authorised capital and the procedure for its formation during the licensing process for VASP entities are strictly defined. In particular, authorised capital can only be formed from the founders' own funds and other property. Also, external sources, including credit funds, resources raised through collateral, or other borrowed funds, are prohibited from being used as authorised capital.

The issue of granting financial incentives (tax relief, preferential regimes, simplified regulatory requirements) to participants in the process of making payments via cryptocurrencies is based on the theory of innovative economy and the concepts of institutional development. According to endogenous growth theory (Romer model), technological innovations are an internal driver of economic growth, and a supportive environment created by the state expands the scale of innovative activity [14]. From this point of view, introducing temporary tax incentives for crypto-assets

and blockchain-based payment systems serves to compensate for innovation risks and accelerate the integration of new financial technologies into the market. This process, within the framework of Schumpeter's concept of "creative destruction", accelerates the replacement of traditional financial instruments with digital alternatives [15].

According to institutional economic theory (D. North), an effective legal and fiscal environment is a decisive factor in attracting investment flows. Clarity and predictability of the tax regime in the cryptocurrency sector reduce transaction costs and lower legal risks for foreign investors [16]. Preferential fiscal mechanisms, including reduced tax rates on capital gains or the introduction of tax holidays (zero rate) for a certain period, create a favourable investment environment for international fintech companies. Such an approach reduces their operating costs, reduces legal and fiscal uncertainties, and encourages these entities to enter the country's market and operate long-term. This approach is widely used in the experience of international financial centres (for example, special economic zones or "regulatory sandbox" regimes) and serves to shape the digital economy ecosystem.

However, in the long term, the main task of fiscal policy, along with supporting innovation, is to ensure financial stability. According to optimal taxation theory (Ramsey model), the state should distribute the tax burden in a way that has minimal negative impact on economic



efficiency [17]. Therefore, although incentives in the cryptocurrency sector are initially of a stimulating nature, as the market develops, they need to be gradually integrated into the general fiscal system. This balance, on the one hand, maintains the competitiveness of the innovative sector, and on the other hand, ensures budget stability and macroeconomic equilibrium. Thus, the mechanism of

financial incentives is considered as a temporary developmental instrument, and the strategic goal is to form a stable and regulated digital financial system. In this regard, in a number of countries, the market entry costs of organisations engaged in crypto-assets are being reduced by reducing or temporarily abolishing taxes, which in turn accelerates the formation of new start-ups and fintech companies (Table 3).

Table 3
Cryptocurrency taxation rates [18]

Nº	Country	Taxation rates on crypto-assets
1	El Salvador	No tax on Bitcoin profits.
2	Portugal	Long-term (over 365 days) crypto-asset income not taxed; short-term profit tax 28%; crypto-to-crypto exchange not taxed.
3	Germany	Long-term (over 365 days) crypto-asset income not taxed; short-term profit under €600 not taxed, over €600 taxed at approx. 20-45% based on annual income; mining and staking income taxed at approx. 20-45% based on annual income.
4	Switzerland	Individual investors not subject to income tax; mining and staking income taxed at approx. 0-13.2%; wealth tax (on total asset value) approx. 0.3-1%.
5	Singapore	Profit from buying and later selling crypto at a higher price not subject to tax; professional traders' income up to 24% for individuals; legal entities taxed at 17%; VAT (9%) not levied on crypto-assets used as a means of payment.
6	Malta	Long-term (over 365 days) crypto-asset income not taxed; crypto-to-crypto exchange profit taxed up to 35%.
7	Belarus	Individual investors' income taxed at 10-13%, legal entities' profit at 9%.
8	Malaysia	Individual investors not subject to income tax; professional traders' income up to 30%, company profits taxed at 24%.
9	Georgia	Individual investors not subject to income tax; professional traders' income taxed at 15%.
10	Cayman Islands	No tax levied.
11	UAE	No income tax; VAT at 5% on crypto-assets used as a means of payment.
12	Puerto Rico	No capital gains tax for residents; corporate tax at 4%.

As can be seen from this table, tax policies on crypto-assets vary sharply from country to country. For example, countries such as El Salvador, Singapore and the UAE are very favourable for ordinary investors, often with no tax on profits from crypto trading. This is a policy aimed at attracting investors and developing the fintech sector.

European countries have a somewhat more balanced approach. For example, in Germany and Portugal, long-term (more than one year) crypto holdings are tax-exempt, but short-term trading or active trading income is taxed. Switzerland does not tax capital gains but applies a wealth tax, which differs from other countries.

In some countries, tax is applied only to active trading or business. For example, in Malaysia and Georgia, ordinary investors do not pay tax, but professional traders or companies are subject to income tax. Malta is similar, providing relief for long-term investments but taxing trading activity.

Also, some territories stand out with special tax regimes. Puerto Rico has no capital gains tax for residents, and the Cayman Islands have no tax at all. However, such places may have high residency requirements or living costs. In general, when choosing the most favourable country for crypto, not only taxes but also living conditions, legislation and residency requirements are important.

Tax policy serves to formalise economic activity related to crypto-assets. Taxing crypto income provides additional sources for the state budget and reduces the share of the shadow economy. At the same time, this mechanism encourages market participants to conduct their activities openly and legally, thus increasing overall economic transparency.

The "regulatory sandbox" mechanism, used as an experimental approach in regulating the crypto-asset market, allows new crypto-projects to be tested in a limited and controlled environment. In this process, regulators and VASP entities work together to



comprehensively analyse the project's compliance with legal requirements, its risk level and its impact on financial stability. Where necessary, potential risks are minimised by introducing temporary restrictions, limits or additional control measures. As a result, market transparency is ensured, investors are legally protected, and financial risks such as fraud and money laundering are significantly reduced.

Theoretically, the sandbox mechanism is interpreted as a modern institutional tool that balances innovation and regulation. It allows the safety and efficiency of new technologies to be assessed before they are fully implemented in the real market environment. Therefore, the sandbox model is recognised as an innovative governance mechanism in the global and national regulatory concept, forming an optimal balance between market regulation and reduction of financial risks. In general, regulating the crypto-asset market manifests itself not only as a financial control measure, but also as a strategic mechanism that ensures the institutional development of the digital economy, supports innovation and protects the interests of investors.

In the process of regulating the cryptocurrency market, central banks pay special attention to stablecoins, because as cryptocurrencies whose value is pegged to a specific asset or national currency and are relatively stable, they serve as a means of payment in the digital economy. Theoretically, stablecoins can increase the efficiency of payment systems, provide fast and cheap transactions, but because of their potential impact on monetary policy, liquidity and financial stability, they are regulated within the framework of central bank supervision and prudential requirements. Therefore, stablecoin issuance, reserve asset backing and transparency are strictly monitored, and special regulatory mechanisms are introduced to ensure the security of the financial system.

CONCLUSION

Technological development and the emergence of the Internet have made global information exchange fast and transparent, creating a solid foundation for the formation of the digital economy. Blockchain technologies and crypto-assets are the next stage of this process, enabling financial operations to be managed in a decentralised, secure and efficient manner. At the same time, these technologies require new regulatory mechanisms from the perspective of financial stability, investor rights and cross-border security.

International experience shows that there is no single universal model for regulating the crypto-asset market.

Different approaches are used, ranging from complete prohibition (China) to strict regulation (USA), liberal supportive (Switzerland, Singapore) and balanced hybrid (European Union) models. The main mechanisms for effective regulation include licensing of VASP entities, implementation of AML/KYC requirements, the "regulatory sandbox" mechanism and tax policy. Together, these mechanisms serve to increase market transparency, prevent financial crime and protect investors.

Stablecoins and national digital currencies (CBDCs) make payment systems fast, secure and efficient, while also allowing integration with monetary policy under central bank supervision. These pilot projects create an opportunity to harmonise financial stability and technological innovation. At the same time, tax incentives and preferential fiscal mechanisms in the field of crypto-assets encourage innovative companies, and as the market matures, tax policy is gradually introduced, ensuring a continuous balance between the digital finance ecosystem and state revenues.

The results of the study show that regulating the crypto-asset market is not only a financial control measure, but also a strategic mechanism that ensures the institutional development of the digital economy, supports innovation and protects investor interests. In the future, it is important to strengthen international cooperation in this area, harmonise regulatory standards and form a flexible legal framework adapted to technological changes. For Uzbekistan, studying advanced foreign experience and developing an optimal model for regulating the crypto-asset market, taking into account the specific features of the national economy, is a pressing task.

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