



## **Latvijas Banka Published Financial Stability Report 2024: Talks about Cryptocurrency Regulations**

On 26 July 2024, Latvijas Banka published its Financial Stability Report, offering a comprehensive analysis of Latvia's financial system. The report addresses key areas such as the macrofinancial environment, the real estate market, credit institution sector developments, and macroprudential policy measures. It provides insights into the economic challenges and risks facing Latvia, as well as the measures being taken to ensure financial stability and resilience.

The report highlights several critical developments, including the impact of geopolitical tensions on the financial sector, the slow growth in domestic lending, and the significant role of household and corporate solvency in maintaining economic stability. Additionally, it discusses the importance of enhancing the resilience of the banking sector through strategic measures such as increasing capital buffers and revising lending standards to promote sustainable investments.

Latvia is witnessing a growing interest in crypto-assets among its residents. The report reveals that the proportion of households owning crypto-assets has nearly doubled, from 4% in February 2023 to 7% in February 2024. This increase signifies a cautious yet notable engagement with digital currencies by the Latvian public. Despite the rising interest, the actual financial engagement with crypto-assets has shown a decline. Payments made by Latvian residents to crypto-wallets using Latvian-issued payment cards dropped by 17.6% in 2023, amounting to 42.7 million euros compared to 51.76 million euros in 2022. This reduction suggests a cautious approach by households in the wake of regulatory changes and market uncertainties.

The report outlines the comprehensive regulatory framework being implemented to address the risks associated with crypto-assets. Key aspects of this framework include consumer protection, ensuring that investors are protected from fraudulent schemes and ill-considered investments, and preventing the concentration of market power among a few dominant service providers to maintain a competitive and fair market landscape. Additionally, the regulations aim to mitigate the risks of money laundering and other financial crimes associated with crypto-assets through enhanced oversight and stricter regulations.

To fortify the financial sector against potential disruptions from the crypto market, Latvijas Banka is implementing several strategic measures. These include a gradual increase in the countercyclical capital buffer (**CCyB**) to 1%, enhancing the banking sector's ability to absorb losses during economic downturns, and revised lending standards to promote investments in energy-efficient housing and buy-to-let properties. These measures are designed to encourage sustainable investments and facilitate the refinancing process for borrowers.

Latvijas Banka's 2024 Financial Stability Report underscores the importance of a robust regulatory framework to navigate the dynamic crypto-asset landscape. By addressing key risks and promoting secure investment practices, the bank aims to ensure long-term financial stability in Latvia. The proactive approach adopted by Latvijas Banka serves as a model for balancing innovation with stringent oversight. As the crypto-asset market continues to evolve, these regulatory measures will play a crucial role in protecting investors and maintaining the integrity of the financial system.

(Source: [https://datnes.latvijasbanka.lv/fsp/FSP\\_2024\\_EN.pdf](https://datnes.latvijasbanka.lv/fsp/FSP_2024_EN.pdf))

## Artists Challenge SEC's Authority Over NFTs Seeking Clarity of Jurisdiction

On 29 July 2024, conceptual artist Brian Frye and musician Jonathan Mann filed a pre-emptive lawsuit against the United States Securities and Exchange Commission (**SEC**) concerning the regulation of non-fungible tokens (**NFTs**). This legal action follows previous SEC enforcement actions against Impact Theory, LLC, and Stoner Cats, highlighting the increasing scrutiny of NFTs under federal securities laws.

In their complaint, Frye and Mann argue that NFTs, which are unique digital assets often used to verify the authenticity of art and music, should not be regulated as securities. They question whether artists should be required to register their digital art with the SEC and make public disclosures about potential risks, comparing such requirements to the absurdity of demanding traditional artists like Warhol or Hendrix to do the same. The complaint suggests that imposing these regulations on NFTs would stifle creativity and innovation in the digital art space.

The plaintiffs' digital art projects are at the center of this legal dispute. Frye's project, Cryptographic Tokens of Material Financial Benefit, consists of 10,320 NFTs and is designed to mock the SEC's attempt to regulate digital art. Mann, known as "Song a Day Mann," plans to release 10,420 NFTs featuring unique remixes of his song "This Song Is a Security." Both projects aim to challenge the SEC's jurisdiction over NFTs and highlight the perceived absurdity of applying securities laws to digital art.

The lawsuit contends that the SEC's actions against Impact Theory and Stoner Cats, where both parties settled for allegedly conducting unregistered offerings of crypto asset securities, set a troubling precedent. The plaintiffs assert that there is no legal basis for categorizing NFTs as securities under the Howey test, a Supreme Court decision that defines an investment contract. They argue that the relationship between an NFT creator and a holder is akin to that between any artist and an art owner, where the purchaser holds the asset without entering into an investment contract.

This legal challenge seeks a declaration that the plaintiffs' NFT projects do not violate U.S. securities laws and an injunction to prevent the SEC from enforcing such regulations against them. The outcome of this case could have significant implications for the regulation of digital art and the broader crypto market, potentially setting a precedent for how NFTs are treated under federal law.

The plaintiffs' argument emphasizes that the SEC's current approach to NFTs raises numerous questions and uncertainties for artists, forcing them to consider legal counsel for activities traditionally outside the scope of securities regulation. As the case progresses, it will test the boundaries of the SEC's authority and could redefine the regulatory landscape for NFTs and digital art.

## Law Commission of England Publishes Digital Assets Draft Bill and Report: Proposes Third Category of Personal Property for Digital Assets

On 30 July 2024, the Law Commission of England and Wales published a supplemental report and draft Bill proposing the establishment of a third category of personal property to encompass certain digital and other assets. This initiative aims to clarify the legal status of digital assets, such as crypto-tokens and non-fungible tokens (**NFTs**), confirming their capability to attract personal property rights.

In its June 2023 digital assets report, the Commission concluded that digital assets are fundamentally different from both physical assets and rights-based assets like debts and financial securities. As such, these digital assets do not neatly fit within the traditional categories of personal property. The draft Bill seeks to address this by affirming that an object can be the subject of personal property rights even if it is neither a thing in action nor a thing in possession. This legislative move mirrors recent case law developments but aims to eliminate the remaining uncertainties in the absence of a conclusive statement from the appellate courts.

The Commission's consultation on the draft Bill in February 2024 garnered various responses, leading to amendments in the wording, though not the substance, of the draft. This feedback process underscores the Commission's commitment to refining and ensuring the legislation's relevance and applicability.

The government's approach towards cryptocurrency and digital assets has been one of cautious progression. By supporting the Law Commission's initiative, the government demonstrates its recognition of the evolving digital landscape and the need for a legal framework that accommodates new forms of property. This proactive stance is crucial in fostering innovation while ensuring robust legal protections for digital asset holders.

Categorizing crypto assets as a distinct form of personal property marks a significant step forward for the digital economy. This legal recognition paves the way for greater clarity and security in transactions involving digital assets, potentially boosting investor confidence and encouraging further adoption of blockchain technology. It also sets a precedent for other jurisdictions to follow, potentially leading to more harmonized international regulations.

The establishment of a third category of personal property for digital assets could have far-reaching implications. It would not only provide clear legal backing for ownership rights but also facilitate the development of new financial products and services. This move signals a forward-thinking approach, positioning England and Wales as leaders in embracing and regulating the digital asset revolution.

(Source: <https://lawcom.gov.uk/project/digital-assets/>, <https://cloud-platform-e218f50a4812967ba1215eaece-de923f.s3.amazonaws.com/uploads/sites/30/2024/07/Digital-assets-as-personal-property-supplemental-report-and-draft-Bill-web-version.pdf>)

## Coinbase Faces Legal Scrutiny Over Alleged \$25 Million Campaign Finance Violation Amid Federal Contract Bidding

On 30 July 2024, Coinbase came under scrutiny following allegations that it violated campaign finance laws by making a \$25 million donation to the Fairshake super political action committee (**PAC**) while bidding for a federal government contract. These claims were brought forward by Molly White, a prominent crypto skeptic and founder of the "Web3 is Going Just Great" website.

White contends that the timing of Coinbase's contribution coincides suspiciously with its involvement in federal contract negotiations. She noted that the U.S. Marshals Service had issued a request for proposals on 4 March 2024, with Coinbase securing a \$32.5 million contract on 1 July 2024. White alleges that the \$25 million donation on 30 May 2024 fell within a period prohibited for contributions by federal contractors.

In response, Paul Grewal, Coinbase's Chief Legal Officer, dismissed the allegations as "misinformation" in a post on 2 August 2024. Grewal emphasized that Coinbase does not classify as a federal contractor under the plain language of Code of Federal Regulations 115.1. He clarified that the funds associated with the request for proposal were sourced from the Assets Forfeiture Fund, which is funded through proceeds from the sale of property forfeited to the U.S. Government, rather than appropriated funds.

The donations in question include \$5 million in November 2023, \$15.5 million in December 2023, and \$25 million in May 2024. White's allegations, however, assert that these contributions violate federal laws prohibiting donations from entities engaged in federal contract negotiations. Government affairs lobbyist Dr. Craig Holman supported White's claims, suggesting it would be appropriate to file a complaint with the Federal Election Commission (**FEC**).

The Fairshake super PAC, which aims to provide blockchain innovators with a clearer regulatory and legal framework, has raised over \$202 million this year, with major contributions from firms including Coinbase. It stands as the largest super PAC of the 2024 election.

These allegations impact Coinbase by potentially undermining investor confidence and attracting increased regulatory scrutiny. The accusations could lead to closer examination of Coinbase's compliance practices and its overall operational integrity, posing challenges to its market reputation and stakeholder trust.

Coinbase has been under continuous legal scrutiny by authorities, facing multiple regulatory challenges and investigations. This latest allegation adds to the company's legal woes, showing the need for better compliance frameworks and transparent operations to navigate the complex regulatory landscape of the cryptocurrency industry. The persistent oversight by regulatory bodies is commendable and shows the importance of adherence to legal standards to ensure the long-term sustainability and legitimacy of cryptocurrency exchanges.

## MAS Highlights Sustainable Governance at Singapore Governance and Transparency Forum

On 1 August 2024, Mr. Lim Tuang Lee, Assistant Managing Director (Capital Markets Group) at the Monetary Authority of Singapore (**MAS**), addressed the Singapore Governance and Transparency Forum, highlighting the critical importance of sustainable governance. Mr. Lim congratulated the award winners for their progress in corporate governance disclosures and practices, emphasizing the theme "Navigating Sustainable Governance." He stressed the growing investor interest in companies that prioritize sustainability, business ethics, and integrity.

Mr. Lim articulated three key principles—Profit, People, and Planet—that companies should focus on to achieve sustainable governance. He proposed that businesses, while aiming for profitability, should also prioritize their ecosystems, including customers, employees, and communities, to ensure long-term viability. He emphasized the importance of fostering a positive culture within organizations to engage stakeholders effectively and highlighted the necessity for companies to take active steps in protecting the environment to manage risks and enhance their legacy.

A noteworthy aspect of Mr. Lim's remarks was the recognition of the significant progress Singapore-listed companies have made in climate-related reporting. Nearly all Singapore-listed companies have commenced climate-related reporting efforts, with 96% of firms engaging in such practices by the end of 2023, a significant increase from 65% the previous year. This progress demonstrates the commitment of Singapore's corporate sector to align with international sustainability standards, including those set by the Global Reporting Initiative (**GRI**) and the Task Force on Climate-related Financial Disclosures (**TCFD**).

The emphasis on sustainable governance and transparency has far-reaching implications for the cryptocurrency sector. As digital assets become increasingly integrated into the global financial system, the principles of sustainable governance highlighted by Mr. Lim are equally applicable to cryptocurrency projects and platforms. Ensuring robust governance, transparency, and accountability will be essential for crypto companies to gain investor trust and regulatory approval.

For instance, the focus on environmental impact resonates strongly with the cryptocurrency industry, particularly given the environmental concerns associated with energy-intensive mining operations. Crypto companies that adopt sustainable practices and prioritize transparency in their operations are likely to attract more institutional investors and gain a competitive edge in the market.

The MAS's commitment to sustainable governance also encourages innovation within the cryptocurrency space. By fostering an environment that values ethical practices and sustainability, the MAS is setting the stage for crypto firms to develop new, innovative solutions that address environmental and social challenges. This approach aligns with the broader goal of integrating traditional financial instruments with blockchain technology, as seen with the recent introduction of tokenized US Treasury bills on the XRP Ledger.

The principles discussed by Mr. Lim also emphasize the importance of compliance with regulatory standards. As the cryptocurrency sector continues to evolve, maintaining compliance with international sustainability standards and regulatory frameworks will be crucial. This will not only enhance the credibility of crypto companies but also ensure their long-term success and stability.

The integration of sustainability principles into corporate governance has positively influenced market sentiments. Investors are increasingly looking for companies that demonstrate a commitment to sustainable practices. This trend is expected to continue, with more investors considering environmental, social, and governance (ESG) factors in their investment decisions.

The adoption of sustainable governance practices in the cryptocurrency sector can lead to greater market acceptance and growth. As crypto companies align their operations with the principles of sustainability, they will be better positioned to attract investment and foster innovation. The future of the cryptocurrency market will likely be shaped by the ability of companies to balance profit with purpose, ensuring they contribute positively to society and the environment. By embracing the principles of profit, people, and planet, crypto companies can enhance their operations, attract more investors, and contribute to a more sustainable future. The MAS's focus on transparency and sustainability sets a strong precedent for the integration of traditional financial instruments with innovative blockchain technologies, paving the way for a more resilient and responsible financial ecosystem.

(Source: <https://www.mas.gov.sg/news/speeches/2024/remarks-by-mr-lim-tuang-lee-at-the-singapore-governance-and-transparency-forum-on-1-august-2024>)

## SEC Proposes Joint Data Standards to Enhance Financial Transparency

On 2 August 2024, the Securities and Exchange Commission (SEC) announced a proposal for joint data standards under the Financial Data Transparency Act of 2022. This initiative aims to establish technical standards for data submitted to various financial regulatory agencies, enhancing interoperability and consistency across the sector. Alongside the SEC, eight other agencies are involved or expected to propose these standards: the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, the Department of the Treasury, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, and the Office of the Comptroller of the Currency.

The proposed standards aim to streamline the submission process for financial institutions by creating common identifiers for entities, geographic locations, dates, and specific products and currencies. SEC Chair Gary Gensler emphasized the significance of this proposal, stating, "This proposal will make financial data more accessible, uniform, and useful to the public. Consistent data standards will make it easier for financial institutions to file reports across multiple agencies. They also will help regulators be more effective and efficient in carrying out our oversight functions."

The proposal includes principles-based standards for data transmission and schema and taxonomy formats, which will allow financial institutions to submit high-quality, machine-readable data to regulatory agencies. This move is expected to enhance the efficiency and effectiveness of regulatory oversight, ensuring that data is consistent and transparent across all financial regulatory bodies.

The implementation of financial data transparency standards is anticipated to have a profound impact on regulatory oversight, particularly concerning cryptocurrency entities. With standardized data, regulators can more effectively monitor and analyze financial activities, identifying any irregularities or fraudulent activities with greater precision. This enhanced oversight is crucial for the fast-evolving crypto market, where the lack of transparency and inconsistent data reporting has often posed regulatory challenges, therefore by promoting better data interoperability and accessibility, the proposal will help safeguard the integrity of the financial system and foster investor confidence in the regulatory oversight.

For crypto entities, this proposal signifies a new era of regulatory compliance and transparency. The adoption of standardized data formats will necessitate crypto companies to align their reporting practices with the new requirements, ensuring that their submissions are precise, consistent, and timely. This shift will likely involve updates to their data management systems and processes, creating an initial compliance burden but ultimately leading to a more transparent and trustworthy market environment. The enhanced regulatory scrutiny and data transparency will also deter malicious activities and promote a level playing field for all participants in the crypto space.

The agencies involved are currently in various stages of approving the proposed joint standards, with some set to vote in the coming weeks. The public comment period for the proposed standards will remain open for 60 days following their publication in the Federal Register.

(Source: <https://www.sec.gov/newsroom/press-releases/2024-93>)

## CFTC Grants Exemptions to Singapore-Based FMX Securities and LMAX Pte. Ltd. from SEF Registration Requirements

On 2 August 2024, the Commodity Futures Trading Commission (**CFTC**) announced the unanimous approval of an amended order exempting two recognized market operators (**RMOs**) in Singapore from the swap execution facility (**SEF**) registration requirements. The RMOs receiving this exemption are FMX Securities (Singapore) Pte. Limited and LMAX Pte. Ltd.

These exemptions are granted under Section 5h(g) of the Commodity Exchange Act (**CEA**), which allows the CFTC to exempt foreign SEFs from registration if they are subject to comparable, comprehensive supervision and regulation by their home country's appropriate governmental authorities. The CFTC retains the authority to revoke the exempt status if the facility is no longer authorized or in good standing in its home country.

The CFTC's decision builds on an order issued on March 13, 2019, which determined that the Monetary Authority of Singapore's (**MAS**) regulatory framework for approved exchanges (**AEs**) and RMOs meets the standards required by the CEA. This framework allows the MAS to request exemptions for facilities meeting certain legal requirements in Singapore. The MAS also agreed to notify the CFTC if an AE or RMO no longer satisfies those requirements, ensuring ongoing compliance.

FMX Securities (Singapore) Pte. Limited and LMAX Pte. Ltd. are key players in the financial technology and trading markets, both holding significant roles within the global financial ecosystem. LMAX Group, the parent company of LMAX Pte. Ltd., is a leading independent operator of multiple institutional execution venues for FX and cryptocurrency trading. With offices in nine countries and a robust client base, LMAX Group is known for its high-performance, ultra-low latency exchange infrastructure, with matching engines located in major financial hubs such as London, New York, Tokyo, and Singapore.

LMAX Digital, a subsidiary of LMAX Group, operates as a regulated institutional spot cryptocurrency exchange. It leverages LMAX Group's proven technology to allow global institutions to trade and hold liquid digital assets like BTC, ETH, LTC, BCH, XRP, SOL, PYTH, MATIC, and LINK securely.

The exemptions granted to FMX Securities and LMAX Pte. Ltd. mark a significant milestone for the crypto industry. Such regulatory relief enhances the operational efficiency of these entities, enabling them to focus on innovation and market expansion without the added burden of registering as SEFs with the CFTC. This decision underscores the growing recognition of the robust regulatory frameworks in place in jurisdictions like Singapore, which align with international standards. This regulatory stance promotes confidence among market participants, facilitating smoother cross-border operations and enhancing the global integration of financial markets.

These exemptions allow smoother operations of FMX Securities and LMAX Pte. Ltd., allowing them to operate with greater regulatory clarity and flexibility. It further establishes CFTC's commitment to fostering a collaborative international regulatory environment, which is crucial for the dynamic and fast-evolving crypto industry. For crypto players, such regulatory harmonization means reduced compliance costs and streamlined operations. It also sets a precedent for other jurisdictions to recognize and align with robust regulatory frameworks, thereby supporting the global growth of the cryptocurrency market.

The CFTC's decision to exempt FMX Securities and LMAX Pte. Ltd. from SEF registration requirements is a testament to the effective regulatory frameworks of MAS and the importance of international regulatory cooperation. This move not only supports the operational capabilities of these entities but also promotes a more integrated and efficient global financial system.

(Source: <https://www.cftc.gov/PressRoom/PressReleases/8937-24>)

## Ripple Partners with DIFC Innovation Hub to Propel Blockchain and Crypto Innovation in the UAE

On 2 August 2024, Ripple, a leading provider of enterprise blockchain and crypto solutions, announced its partnership with the DIFC Innovation Hub, a key innovation ecosystem within the Dubai International Financial Centre (**DIFC**). This strategic collaboration aims to accelerate blockchain and digital asset innovation in the UAE, marking a significant step in the region's fintech development.

The new partnership will connect the next generation of developers with the DIFC Innovation Hub, which hosts over 1,000 growth-stage tech firms, innovation companies, digital labs, venture capital firms, regulators, and educational entities. This initiative is designed to drive blockchain and crypto adoption among early-stage companies and scale-ups, while also introducing and positioning the technology with traditional large strategic institutions.

Ripple has committed one billion XRP to accelerate development and new global use cases on the XRP Ledger (**XRPL**), the decentralized, layer-1 blockchain. This commitment will provide financial, technical, and business support to developers. Since announcing the 1B XRP Fund in late 2021, Ripple has funded over 160 teams building on the XRPL across 47 countries, spanning a wide range of use cases from decentralized finance (**DeFi**) to real-world assets (**RWA**).

Arif Amiri, CEO of DIFC Authority, remarked, "The Ripple collaboration further cements DIFC's role as a leading global hub for talent, technology, and innovation, as we continue to enhance our ecosystem powered by a world-class regulatory jurisdiction, to drive the future of finance."

Brad Garlinghouse, Ripple CEO, emphasized, "The UAE is one of the most advanced jurisdictions globally in offering regulatory clarity for licensed firms to provide virtual asset services. Our partnership with the DIFC Innovation Hub promises to drive the adoption of blockchain technology in the region."

The Ripple Middle East and Africa (**MEA**) regional office, located within DIFC, saw XRP approved for use within the Centre in November 2023. Licensed virtual asset firms within DIFC can now incorporate XRP into their services, fostering blockchain innovation in Dubai.

Mohammad Alblooshi, CEO of the DIFC Innovation Hub, expressed enthusiasm for the partnership, noting, "We are thrilled to see the Ripple effect manifesting itself at the DIFC Innovation Hub, benefiting our growing community of fintech firms. This agreement ensures that innovative development in the blockchain and cryptocurrency sectors receives the funding and support needed to turn new ideas into impactful realities."

Looking ahead, Ripple plans to launch a USD-backed stablecoin to bring more liquidity to the XRPL and continues to support improvements to the XRPL, including the recent AMM Amendment. This partnership with DIFC is expected to empower regional talent and solidify the UAE's position as a leading fintech hub globally, creating a fertile ground for further innovation in the blockchain and digital asset sectors.

(Source: <https://mediaoffice.ae/en/news/2024/august/08-08/difc-ripple-to-accelerate>)

## U.S. Senator Cynthia Lummis introduced Bill 'BITCOIN Act of 2024': Strategic Bitcoin Reserve to Revolutionize National Financial Security

On 5 August 2024, the United States Senator Cynthia Lummis is set to introduce the "Boosting Innovation, Technology, and Competitiveness through Optimized Investment Nationwide Act of 2024," popularly known as the BITCOIN Act of 2024 in the second session of the 118<sup>th</sup> Congress. This bill, introduced by Senator Lummis, aims to establish a Strategic Bitcoin Reserve, marking the first time in history that the U.S. government will integrate Bitcoin into its national financial strategy. The proposal outlines a comprehensive plan to purchase and securely store up to 1,000,000 Bitcoins over five years, enhance financial resilience, and position the U.S. as a leader in global financial innovation. By incorporating Bitcoin as a digital counterpart to traditional gold reserves, the act seeks to provide a hedge against economic uncertainty and monetary instability, ensuring long-term financial security for the nation.

The BITCOIN Act of 2024 proposes the creation of a decentralized network of secure Bitcoin storage facilities across the United States, known as the Strategic Bitcoin Reserve. This initiative is designed to safeguard the government's Bitcoin holdings through advanced cold storage techniques, ensuring they remain secure from unauthorized access and cyber threats. The act's goal is to fortify the financial condition of the United States, providing a hedge against economic uncertainty and monetary instability. The U.S. government plans to purchase up to 200,000 Bitcoins annually over five years, totaling 1,000,000 Bitcoins. These purchases will be conducted in a transparent and strategic manner to minimize market disruption. The Bitcoin acquired will be stored using state-of-the-art security measures in geographically dispersed locations to minimize risk. To ensure transparency in Bitcoin management, the act mandates quarterly public reports and audits.

The U.S. government's approach towards Bitcoin, as outlined in the BITCOIN Act of 2024, signifies a strategic pivot towards embracing digital assets. Recognizing Bitcoin's role as a resilient store of value and medium of exchange, the act positions Bitcoin as a digital counterpart to traditional gold reserves. This aims to enhance the financial leadership and security of the United States in the global economy, leveraging Bitcoin's unique properties to complement existing national reserves. By incorporating Bitcoin into its financial strategy, the U.S. aims to strengthen the position of the U.S. dollar in the global financial system, ensuring long-term stability and security.

While the BITCOIN Act of 2024 promises significant advancements in financial strategy, it has also sparked a wave of skepticism. Critics argue that the timing of this proposal, coinciding with the upcoming elections, suggests it may be a tactic to garner support from the tech-savvy and libertarian-leaning Bitcoin community. This perspective raises questions about whether the act is a genuine effort to innovate or a strategic move to woo voters by capitalizing on the growing popularity of digital currencies. The potential political motivations behind this act cannot be ignored, especially considering the increasing importance of the Bitcoin community in the political landscape.

The BITCOIN Act has several potential advantages. By diversifying national assets to include Bitcoin, the U.S. can enhance its financial resilience and stability in the face of economic uncertainties. This move positions the U.S. as a leader in global financial innovation, showcasing a forward-thinking approach to digital assets. The act's requirement for regular public reports and independent audits ensures accountability and transparency in managing national Bitcoin holdings.

The U.S. government's involvement in Bitcoin is not entirely new. The U.S. is already one of the world's largest holders of Bitcoin, with over 200,000 Bitcoins currently in custody, accumulated through seizures and other means. The government has generated millions in profits from the sale of these holdings, despite multiple agencies denying a profit motive or market-driven strategy.

However, there are also potential drawbacks to the BITCOIN Act. Large-scale government purchases of Bitcoin could disrupt the market, affecting prices and volatility, which may have broader economic implications. Despite advanced security measures, the decentralized nature of Bitcoin storage poses potential risks, necessitating constant vigilance and robust protection protocols. Additionally, the timing of the act raises concerns about its underlying motivations, questioning whether it is primarily driven by financial strategy or political expediency. These factors must be carefully considered as the bill progresses.

The BITCOIN Act of 2024 represents a monumental proposal in the realm of digital finance. While it holds the promise of enhancing U.S. financial security and innovation, it also faces scrutiny regarding its potential political motivations and market implications. As the bill progresses, its true impact on both the national and global financial landscape will become more evident, potentially setting a precedent for the future of digital asset integration in government financial strategies.

(Source: <https://www.lummis.senate.gov/wp-content/uploads/BITCOIN-Act-FINAL.pdf>)

## **Binance Faces \$86 Million Tax Bill from Indian Authorities Amid Intensified Scrutiny**

On 5 August 2024, Indian authorities have issued a substantial tax bill to Binance, the world's largest cryptocurrency exchange. The Directorate General of Goods and Services Tax Intelligence (**DGGI**) from Ahmedabad has served Binance with a show cause notice demanding \$86,033,159 in Goods and Services Tax (**GST**) for non-com-



pliance issues. This tax recovery notice stems from allegations that Binance collected fees from Indian customers trading in virtual digital assets (**VDAs**) on its platform without registering under the Indian GST framework, reflecting India's intensified efforts to bring cryptocurrency operations under its tax regime.

Binance, which holds an estimated 40% market share in the global cryptocurrency market and operates in over 150 countries, now faces increased scrutiny from Indian tax authorities. This latest development underscores India's assertion of regulatory authority over international crypto platforms serving Indian customers. The time-frame for the alleged tax evasion spans from July 2017 to March 2024. This action by Indian authorities sets a significant precedent for how other countries might deal with global cryptocurrency exchanges operating within their jurisdictions.

A spokesperson for Binance stated, "We are fully cooperating with the Indian authorities to address any concerns. We would like to clarify that Binance is, and has always been, committed to adhering to relevant domestic legislations applicable to us." Despite this cooperation, the DGGI has initiated an independent investigation separate from the Financial Intelligence Unit (**FIU**), which earlier this year approved Binance as a registered entity after the exchange was fined approximately \$2.2 million in June 2024 for providing services to Indian clients without adhering to anti-money laundering rules.

The DGGI functions under the Ministry of Finance and is tasked with the collection, collation, and dissemination of intelligence related to indirect tax evasion. Their recent actions highlight the Indian government's broader strategy to regulate and tax cryptocurrency transactions more effectively. This initiative is part of India's larger effort to establish a comprehensive policy framework for digital assets, a move that involves collaboration between the Reserve Bank of India (**RBI**), the Securities and Exchange Board of India (**SEBI**), and other government bodies. Economic Affairs Secretary Ajay Seth recently revealed that a discussion paper outlining the government's stance on cryptocurrencies is expected to be released before September 2024. This document aims to solicit input from various stakeholders on potential regulations for India's crypto policy.

Adding to the complexity, Binance has reportedly earned more than \$476 million in transaction fees, transferred to a Binance Group company, Nest Services Limited, based in Seychelles. This revelation points to the substantial revenue generated by Binance from its operations involving Indian customers, further complicating its legal and regulatory challenges in the country. The categorization of Binance's services under Online Information and Database Access or Retrieval Services (**OIDAR**) highlights the effort to level the playing field between overseas and domestic service providers.

This ongoing scrutiny of Binance is not an isolated incident but part of a broader crackdown on cryptocurrency exchanges operating in India. Recently, WazirX, a prominent Indian crypto exchange, suffered a significant hack resulting in the theft of millions of user funds, highlighting the vulnerabilities within the rapidly growing cryptocurrency market in India.

The DGGI's show cause notice to Binance, marking the first such action against an international crypto exchange, signifies a pivotal moment in India's regulatory approach to the digital asset market. As the situation unfolds, the outcome of this investigation and the subsequent legal proceedings will likely shape the future cryptocurrency regulation in India and potentially influence global regulatory practices.

## SEC's Proposals Set to Revolutionize Cryptocurrency Options Trading

**On 6 August, 2024**, in a move to further integrate cryptocurrency assets into the regulated financial system, the Securities and Exchange Commission (**SEC**) has announced two proposed rule changes. Filed by Nasdaq ISE, LLC, these changes aim to enhance the trading landscape for Ether and Ethereum-based financial products. The proposals focus on listing and trading options on units representing interests in Ether-holding trusts and the iShares Ethereum Trust, potentially transforming market dynamics and investor access.

The first proposal, submitted on **22 July 2024**, seeks to amend Options 4, Section 3, allowing Nasdaq ISE to list and trade options on units that represent interests in a trust holding Ether, known as Ether Exchange-Traded Products (**ETPs**). By classifying these Ether ETPs as Exchange-Traded Fund Shares (**ETFs**), the Exchange intends to offer investors a more streamlined and cost-efficient way to gain exposure to Ether. This approach aims to bypass the complexities and direct risks associated with handling Ether directly.

In another pivotal proposal, also submitted on **22 July 2024**, Nasdaq ISE aims to list and trade options on the iShares Ethereum Trust. Managed by BlackRock Fund Advisors, the Trust holds Ether as its primary asset, issuing shares that represent fractional undivided beneficial interests in its net assets. This proposal is part of a broader initiative to expand the types of ETFs considered appropriate for options trading, thereby broadening the scope of investment vehicles available to market participants.

These proposals are poised to bring about substantial benefits and changes in the cryptocurrency market. The introduction of options on Ether ETPs and the iShares Ethereum Trust is expected to increase market access significantly. By providing a regulated and familiar platform for gaining exposure to Ether, these products are likely to attract a wider range of investors, including institutional investors who prefer regulated financial instruments. This increased participation could lead to a more robust and liquid market for Ether-based financial products.

Moreover, the listing of these options on a regulated exchange such as Nasdaq ISE is expected to enhance market transparency. This transparency is crucial for accurate price discovery, which can help stabilize the volatile Ether market by providing clear and reliable pricing signals. Enhanced transparency also boosts investor confidence, as it ensures that pricing and trading activities are conducted in a fair and open manner.

The availability of options trading introduces sophisticated risk management tools for investors. These tools enable investors to hedge against price volatility in the Ether market, offering strategies to manage exposure more effectively. By providing these mechanisms, the market can become more resilient to sudden price swings, thereby reducing the overall risk for participants.

The SEC's regulatory approach to these proposals reflects a balanced and progressive stance towards cryptocurrency integration. The proposed rule changes adhere to stringent criteria, ensuring that these new financial products meet high standards for investor protection and market integrity. Both Ether ETPs and the iShares Ethereum Trust must meet strict initial listing standards, including a substantial number of outstanding shares, wide distribution, and active trading. These requirements are designed to ensure that the products are viable and have a solid foundation in the market.

To maintain their listed status, these products must adhere to ongoing listing requirements, such as maintaining a minimum number of shareholders and ensuring the continuous availability of the underlying assets. This ongoing scrutiny helps maintain market stability and investor confidence. Furthermore, robust surveillance and reporting measures will be implemented to detect and deter potential manipulative activities. The Exchange will apply its existing surveillance procedures, ensuring that the trading of these new options is closely monitored to maintain market integrity.

These regulatory changes are significant step towards integrating cryptocurrency assets into mainstream financial markets. They aim to provide enhanced market access, greater transparency, and improved risk management tools, while ensuring rigorous regulatory oversight to protect investors and maintain market stability.

(Source: <https://www.sec.gov/files/rules/sro/ise/2024/34-100663.pdf>, <https://www.sec.gov/files/rules/sro/ise/2024/34-100661.pdf>)

## International Monetary Fund and El Salvador Progress Toward Economic Stability

On 6 August 2024, the International Monetary Fund (**IMF**) issued a statement following discussions with Salvadoran authorities, led by Mr. Raphael Espinoza. These conversations, held both in person and virtually over the past months, centered on policies aimed at addressing macroeconomic imbalances and enhancing El Salvador's medium-term growth prospects and resilience.

Significant progress has been made in negotiations for a Fund-supported program. The focus areas include strengthening public finances, boosting bank reserve buffers, improving governance and transparency, and mitigating risks associated with Bitcoin.

On the fiscal front, preliminary agreements aim to improve the primary balance by around 3.5% of GDP over three years, setting public debt on a sustainable path. This fiscal consolidation will be achieved through a balanced set of measures, initially focusing on rationalizing the public wage bill while ensuring critical social and infrastructure spending is maintained.

Financial system stability is another key focus, with plans to gradually strengthen reserve buffers in a way that supports continued private sector credit and growth. Efforts are also being made to reduce the government's reliance on domestic financing through planned fiscal consolidation and potential support from the Fund and other multilateral development banks.

Structurally, preliminary agreements have been reached on a multi-year strategy to enhance governance, transparency, and the overall investment climate. The Salvadoran authorities are preparing legislative proposals to tackle corruption, address money-laundering vulnerabilities, and strengthen procurement frameworks. These initiatives are supported by development partners and aim to align with international best practices.

Regarding Bitcoin, while many anticipated risks have not yet materialized, both the IMF and Salvadoran authorities recognize the need for further efforts to enhance transparency and mitigate potential fiscal and financial stability risks associated with the cryptocurrency project. Additional discussions in this and other key areas are necessary to ensure comprehensive risk management.

The IMF team is committed to maintaining close engagement with Salvadoran authorities to finalize an agreement on policies that will ensure stability and prosperity for all Salvadoran people. The Fund's stance is one of cautious optimism, acknowledging the progress made while emphasizing the need for continued efforts and cooperation to achieve sustainable economic stability.

In conclusion, the IMF's ongoing discussions with El Salvador signify a collaborative approach to addressing economic challenges and seizing opportunities for growth and development. The mutual goal remains the achievement of long-term stability and prosperity for the nation.

(Source: <https://www.imf.org/en/News/Articles/2024/08/06/pr-24302-el-salvador-imf-staff-statement>)

### **This newsletter is for information purposes only**

This newsletter and the information contained herein is not intended to be a source of advice or credit analysis with respect to the material presented, and the information and/or documents contained in this newsletter do not constitute investment advice.

Cryptocurrency markets are highly volatile and speculative in nature. The value of cryptocurrencies can fluctuate greatly within a short period of time. Investing in cryptocurrencies carries significant risks of loss. You should only invest what you are prepared to lose.

The content on this newsletter is for informational purposes only. You should not construe any such information or other material as legal, tax, investment, financial, or other advice. Nothing contained on our newsletter constitutes a solicitation, recommendation, endorsement, or offer to buy or sell any cryptocurrencies, securities, or other financial instruments.

We do not guarantee or warrant the accuracy, completeness, or usefulness of any information on this site. Any reliance you place on such information is strictly at your own risk. We disclaim all liability and responsibility arising from any reliance placed on such materials by you or any other visitor to this newsletter, or by anyone who may be informed of any of its contents.

Your use of this newsletter and your reliance on any information on the site is solely at your own risk. Under no circumstances shall we have any liability to you for any loss or damage of any kind incurred as a result of the use of the newsletter or reliance on any information provided on the newsletter. Your use of the newsletter and your reliance on any information on the site is governed by this disclaimer and our terms of use.

If you do not wish to receive this newsletter please let us know by emailing us at [unsubscribe@charltonslaw.com](mailto:unsubscribe@charltonslaw.com)

**CHARLTONS  
QUANTUM**



Hong Kong Office

Dominion Centre 12th Floor  
43-59 Queen's Road East  
Hong Kong

[enquiries@charltonslaw.com](mailto:enquiries@charltonslaw.com)  
[www.charltonsqquantum.com](http://www.charltonsqquantum.com)  
[www.charltonslaw.com](http://www.charltonslaw.com)  
Tel: + (852) 2905 7888  
Fax: + (852) 2854 9596