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Cryptocurrency Investment Regulation

By www.ProfitableInvestingTips.com

Those who purchased cryptocurrencies like bitcoin when they were a few dollars each have become rich. And, those who purchased bitcoin at the end of the 2019 pump and dump lost their shirts as the cryptocurrency fell from nearly \$2000 each to the \$600 range. Now that the pandemic has raised havoc in the economies of the world, bitcoin and other cryptocurrencies are soaring again. Cryptocurrencies are a concern to governments around the world because one can buy and sell, transfer assets, and never been seen. Terrorists and the drug trade are believed to benefit from the hidden nature of cryptocurrency trading. While many would like Bitcoin and other cryptocurrencies to move into the mainstream, regulation will be necessary to protect investors and reduce the attractiveness of cryptocurrencies to those who want to hide money.

Cryptocurrency Investment Regulation

A major issue for cryptocurrency investment regulation is how to trade bitcoin and others. Are they securities, commodities, or currencies? The Library of Congress Law site provides insight into how cryptocurrencies are treated, avoided, regulated, or ignored around the world.

One of the most common actions identified across the surveyed jurisdictions is government-issued notices about the pitfalls of investing in the cryptocurrency markets. Such warnings, mostly issued by central banks, are largely designed to educate the citizenry about the difference between actual currencies, which are issued and guaranteed by the state, and cryptocurrencies, which are not. Most government warnings note the added risk resulting from the high volatility associated with cryptocurrencies and the fact that many of the organizations that facilitate such transactions are unregulated. Most also note that citizens who invest in cryptocurrencies do so at their own personal risk and that no legal recourse is available to them in the event of loss.

Before cryptocurrencies are accepted into the financial mainstream, they need to be regulated. The report summarizes how this has been done in 130 nations across the world.

Cryptocurrencies as Securities, Commodities, or Currency

Who regulates a cryptocurrency and how they do so depends on what you consider this type of asset to be. Lexology.com looks at this issue. In the EU central banks have noted that cryptocurrencies do not fit the legal definition of a currency as they are digital representations of value and not issued by central banks or other like institutions. However, the European Court of Justice said that for tax purposes they should be treated as currencies.

Because securities are tangible proof of ownership of debt, the Chairman of the US SEC said that cryptocurrencies do not qualify as they don't represent ownership.

In regard to cryptocurrencies as commodities, regulators have noted that cryptocurrencies do not represent anything of underlying value such as with coffee, gold, or natural gas. Nevertheless, the US Commodity Futures Trading Commission said in 2018 that in certain instances cryptocurrencies are commodities. In fact, you can trade Bitcoin futures on the Chicago Mercantile Exchange.

Because this issue is still up in the air, two nations have moved to qualify cryptocurrencies as Digital Ledger Assets (DLTs). They have both enacted laws regulating cryptocurrencies within their jurisdictions using this definition.

Cryptocurrency Sales and Taxation

Although the USA does not yet have a strict definition of what a cryptocurrency is for regulatory purposes, the IRS has made it clear that profits from selling bitcoin and other cryptocurrencies are taxable either as short term or long term profits, depending on how long you have held them before selling.

Regulation and the Future of Cryptocurrencies

The general consensus of experts is that regulation will have a dampening effect on the wide swings in monetary value of cryptocurrencies. It will probably have a beneficial effect on the safety of holding cryptocurrencies as exchanges will likely need to open their books to regulators and have better guarantees that assets to not disappear overnight with a couple of computer keystrokes!

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