

Mode and Logic of Token Transaction Supervision

Shunyu Zhao*

Applied economy, Beijing Normal University - Hong Kong Baptist University United International College, Zhuhai, Guangdong, 519000, China

Abstract. This paper mainly studies the attitude and supervision mode of various countries towards digital tokens. The strength and methods of supervision in various countries are different. There are cross-border transaction tokens and other chaotic situations. It is difficult to supervise and protect the interests of investors, which is not conducive to the healthy development of financial economy in various countries. In addition, with the development of globalization, digital tokens are going to the world and need to circulate among countries. Therefore, a recognized regulatory principle is needed to ensure the healthy development of digital finance worldwide. With the goal of single independent law, with the help of "regulatory sandbox" and "white list", we explore regulatory principles.

1 Introduction

1.1 Background

The tide of the times cannot be stopped. The development of blockchain and its integration with various industries have brought a strong impact to all countries in the world. As an important part of blockchain, token trading is also a double-edged sword that all countries need to face. Digital token trading helps to reduce costs, improve efficiency and improve the level and coverage of financial services. Meanwhile, digital tokens also bring instability and risk. How to promote economic development with the help of digital tokens instead of being dragged down by them is an examination paper given by the times. Effective regulation of token trading has become an urgent problem. There are many models such as hierarchical supervision in the United States, separated supervision in China, classified supervision in Singapore, and sandbox supervision. Compared with specific methods, the common logic behind the model is more important. Common logic will make an important contribution to the globalization of digital tokens. Globalization means that tokens will be freely traded and circulated around the world, serving global finance.

1.2 Value and Significance of Topic Selection Research

Supervision has always been an act of looking back, learning from experience in order to avoid detours, and using old experience to test the way forward is inevitably bumpy. If we can explore the logic of supervision, clarify what we need, what we reject, and provide more effective information at each step, we can reduce the loss on the path of gradual development of digital tokens. In the era of

globalization, it is also necessary to break the trade barriers for digital tokens and make them circulate smoothly in all countries, which will promote the development of global financial markets and better promote social progress. Discussing the logic of supervision will prepare for globalization and provide experience for countries to supervise according to specific conditions.

2 Journals Review

Digital token is controversial due to its unique distributed bookkeeping, decentralization and other characteristics. At the same time, all kinds of unknowable risks it contains have had a huge impact on the current financial system and traditional industries. It can be said that the world is facing a strong impact of tokens. Many scholars have summarized the regulatory model or analyzed individual countries, such as some studies in the United States. We took a positive attitude towards the supervision of cryptocurrencies. Adopt the strategy of encouraging investment and strict supervision. Based on the Securities Act of 1933 and the Securities Exchange Act of 1934, the Securities and Exchange Commission of the United States guided the supervision of the United States. Germany has always regarded digital token as a financial tool and embraced the development of digital finance with an extremely open attitude. However, digital tokens are a problem faced by the whole world, and even there are cases of issuing tokens fleeing countries to commit crimes. Moreover, under the influence of transnational transactions, the community of shared future of mankind, etc., the future digital tokens should be shared and co built globally. At present, the literature rarely talks about a common governance principle, and does not explore the supervision mode of global circulation of digital tokens.

*q030001132@mail.uic.edu.cn

3 Research method

3.1 Comparative study method

Read about the supervision over token research in many countries around the world. Countries such as Singapore, the United States, Japan, Russia and other countries have introduced regulations on token supervision this year. Therefore, this paper will discuss this through the analysis of extraterritorial and intraregional regulatory models.

3.2 Case analysis method

Based on the analysis of typical cases, this paper analyzes the attitudes and key points of various regions towards token supervision, and then draws a new analysis.

4 Results and analysis

4.1 France: issued special digital token laws to supervise and creatively put forward the white list

France is the first country in the EU to define the legal supervision system of digital tokens. In the process of grasping the regulatory framework and relaxation, the white list was creatively put forward. If the regulation in France is extremely strict, it will bring huge waste of resources, affect the development of financial innovation, and discourage the enthusiasm of practitioners. If France adopts too loose restrictive policies, it will be difficult to protect the interests of investors and improve people's confidence in the development of digital finance. If you want to provide strong protection, but you cannot completely and closely supervise all tokens, you should supervise some tokens and provide government endorsement for tokens that pass the review. Qualified token issuers can apply to the regulatory authorities, and if they pass the review, they will get a license [1]. All licensed individuals or institutions will be published on the government's "white list" to provide the reviewed issuers with opportunities for public promotion, the credibility of government endorsement and some other benefits. Investors can refer to this list to make choices, which will help reduce investment risks and maintain a good industry ecology. The advantage of this regulatory model is clear and clear, reducing the burden of government regulators. A flexible incentive and supervision mechanism has been established, which not only protects the interests of investors but also does not attack the innovation and enthusiasm of the industry. The Enterprise Transformation and Growth Implementation Plan Act (PACTE Act) was officially launched in 2019. After that, the evaluation rules will be adjusted appropriately according to the needs and performance of service providers in the "white list" to adapt to the innovative development of digital tokens.

4.2 Russia: introduce new definitions and systems into existing laws, explain token transactions with new definitions and supervise them according to law

In 2017, the Amendment to Part I, Part II and Part IV of the Civil Code of the Russian Federation attempted to introduce the concept definition of digital token. Excerpt from the Legislative Rationale: "The purpose of this case is to introduce digital financial technology innovation and types of financial assets in a wider field of application, including the distributed digital transaction register, within the current legal system of China, and to provide good legal conditions for Russian individuals or legal person market entities to attract investors by issuing digital tokens" [2]. For the definition of digital tokens, the corresponding definitions and regulations are also made for the trading platform and token issuer.

On January 15, 2018, the Russian Ministry of Finance issued the Federal Law on Digital Assets Supervision (draft) (hereinafter referred to as the Digital Assets Law (draft)). The Digital Assets Law (draft) defines tokens as "a type of digital financial assets issued by legal persons or individual merchants to attract financing and recorded in the registry". Therefore, it also redefines the behavior of acquiring digital financial assets [3]. Mining is just a paid behavior of acquiring digital tokens, which is legal. It is not to say that digital financial assets are directly recognized in law, but through the new definition introduced in law, a reasonable and legitimate interpretation of the behavior is made, and the behavior after rationalization is supervised according to the previous law. This reduces the cumbersome procedures of re legislation, reduces the lag of supervision, and adapts to the rapidly developing and rapidly changing market requirements.

4.3 UK: Regulatory sandbox system

Sandbox was originally a concept in computer, and the newly designed code was tried and tested in a controllable range. In financial innovation, it refers to the trial operation of products not put on the market under controllable conditions and within limited space.

The development of digital asset derivatives is fast, with a wide variety of products, which are difficult to supervise, and many derivatives are hidden. Passive supervision with existing laws is always backward. Therefore, in 2015, FCA put forward the idea of sandbox regulation in the Regulatory Sandbox report, and formally set up the regulatory sandbox in 2016. In the test, FinTech companies can be exempted from the constraints of the current law, thereby mobilizing the creativity and enthusiasm of FinTech companies. In addition, the screening of access qualification of British sandbox is very tolerant. The Regulatory Sandbox issued by the FCA clearly stipulates that licensed financial institutions and no licensed financial institutions can apply to participate in the sandbox test, regardless of whether the applicant has the qualifications and conditions to provide financial services in accordance with relevant British laws [4]. In addition, the test process of British sandbox is relatively complete, and it is carried out in batches. After the completion of each batch of test,

information will be timely fed back, and the test items and test rules will be constantly adjusted according to the information.

4.4 United States: bring digital tokens into the existing legal system for supervision, and combine hierarchical supervision with functional supervision

Functional supervision: Digital tokens in the United States have multiple attributes such as alternative currency, bulk commodities and securities. The federal and American states, except New York State, are regulated under the existing legal system according to the functions performed by digital tokens. Each regulatory department implements functional supervision. The function of digital token as futures bulk commodity is regulated according to futures laws and regulations. If it has the function of currency payment, it is regulated by currency laws.

Hierarchical regulation: the federal and the states have their own specific regulatory models. The Federation mainly adopts existing laws. Different states will have different specific methods, most of which will implement the federal regulatory model and make some localization improvements. New York is more radical than other states. They are more willing to take the initiative to jump out of the comfort zone and feel that they need to legislate separately for digital tokens. The Research and Innovation Department is established to issue bit licenses. The Bit-License will contribute to stimulating the development of financial companies.

However, state regulation still follows the basic logic of federal regulation. It can be said that state regulation is a kind of experiment and innovation, constantly trying to provide experience for federal regulation.

4.5 Germany: differentiated supervision by using the existing legal system according to different business scenarios

Germany is the first country in the world to recognize the legitimacy of Bitcoin, and has always held an open and inclusive attitude towards blockchain technology, digital tokens and other digital finance. However, Germany did not issue targeted laws for supervision, but conducted differentiated supervision according to different business scenarios and application characteristics. Payment tokens, or tokens used in the process of payment and liquidation, shall comply with German Banking Law, Anti money Laundering Law, etc. Securities tokens representing the ownership of specific assets, interests and liabilities are subject to the German Securities Exchange Act. Tokens that do not have financial functions or do not play a role in the capital market are not subject to the supervision of German financial laws and largely rely on business scenarios for supervision. It is more flexible than classifying and defining tokens. When a token departs from the common scenarios, its functions may change, and the differentiated supervision of business scenarios solves this problem.

4.6 Singapore: Combination of attribute supervision and sandbox supervision

Singapore has not established a legal supervision system for digital tokens, and only the relevant normative document "Guidelines for the Issuance of Digital Tokens" (hereinafter referred to as "Guidelines") shows Singapore's regulatory attitude towards digital tokens and ICOs to a certain extent [5]. ICO (the abbreviation of Initial Coin Offering) means the initial currency offering, which is the act of blockchain projects to issue tokens for the first time and raise universal digital currency.

Supervise according to token attributes. If the digital token issued performs the function of a financial instrument and plays a role in the capital market, it needs to comply with the Securities and Futures Law. Refine the different functions of tokens and put them under the corresponding legal supervision. If tokens are futures, they shall be subject to the legal supervision of futures. If the token has a specific function and does not perform the function of a financial instrument, it will not be subject to the direct supervision of the Financial Supervisory Authority, and it can comply with relevant laws.

In order to maintain the stability of the financial market, tokens playing a role in the capital market need to be subject to the supervision of the "regulatory sandbox". As long as the token issued belongs to the capital market product, the issuer can apply to enter the sandbox for experiments to detect the stability and loopholes of the product. To some extent, sandbox supervision is a supplement to attribute supervision. It is difficult to effectively and clearly locate various types of tokens and map them to existing financial products. If the definition is unclear, it will easily affect the effectiveness of supervision and hurt the interests of consumers and investors.

The sandbox system in Singapore adopts a phased system, and the review and approval process are efficient and helpful to improve the quality of the test products. The initial audit time is short, only 21 days, and the subsequent audit time is flexible, which is related to the quality of data information submitted by the applicant. When an idea or a product is created, it can be immediately reviewed with high efficiency and feedback, which helps testers understand whether their general direction is within the scope of financial innovation supervision. After the preliminary audit, the test applicant and the audit supervisor jointly decide the progress of the project. The more detailed the application content, the more specific the product, and the more reliable the reason, the higher the audit efficiency will be. As long as the applicant pays enough attention and has high efficiency, the corresponding reply will be more efficient, and the product or service will be accelerated to enter the test. The preliminary examination has met the requirement of efficiency. The subsequent application depends on the applicant's attention and information submitted, which encourages the applicant to provide more detailed application information.

5 Conclusion

Based on the rapid development of token trading and the changes in many modes, it is not advisable to rely on the original law entirely. The ultimate goal of governance should be a single independent law. In view of the existence of transnational digital token crimes and the fact that multinational circulation has taken advantage of legal loopholes, it is necessary to establish universal digital token laws and regulations. The common logic is to compare risks and benefits and develop prudently. The specific regulatory model is as follows, a common regulatory sandbox can be set up in many countries to stimulate the creativity and enthusiasm of digital financial companies. In order to ensure the stability of the financial market, improve the selection criteria for regulatory sandboxes, conduct secondary screening among products or services that have passed sandbox testing, enter them into the white list through screening, and be allowed to circulate in countries participating in multinational sandbox supervision. We will continue to gain experience from the operation of sandboxes and a small number of high-quality products, constantly improve and finally establish a set of regulatory regulations that can operate globally.

References

- 1.Dai X, (2020). Research on the Legal Supervision System of French Digital Currency (Master's Thesis, Shanghai Foreign Studies University) <https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD202002&filename=1020079368.nh>
- 2.Chen Y, (2020). Research on the Administrative Supervision of Digital Tokens (Master's Thesis, People's Public Security University of China) <https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD202002&filename=1020901974.nh>
- 3.Wu,S&Wang, Y.(2018) Digital Assets Supervision and Russia's 2018 Federal Law on Digital Assets Supervision (draft) Internet World (02), 47-50
- 4.Ke, D.(2019)Research on the classified supervision of crypto assets - taking the UK, Switzerland and Singapore as examples Securities Law Review (00), 323-336
- 5.Yang, T. (2022)Rational understanding of the reform of the financial technology supervision sandbox People's Forum · Academic Frontier (17), 102-110