

Regulation & Future

Module Quiz – 20 Multiple-Choice Questions

Topics covered: Regulatory objectives · Howey Test · MiCA · Swiss FINMA · CBDCs · Enforcement actions · Future trends

Select the best answer. Answers revealed after each question.

Bloom's levels: **Understand** (4) · **Apply** (8) · **Analyze** (6) · **Evaluate** (2)

Questions 1–5: Regulatory Fundamentals

Q1. [Understand] Which of the following is NOT one of the four main regulatory objectives for cryptocurrency?

- A) Consumer and investor protection B) AML/CFT compliance C) Innovation maximization D) Financial stability

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Answer: C) Innovation maximization is not a regulatory objective; the four core goals are consumer protection, AML/CFT, financial stability, and tax compliance.

Q2. [Understand] **What does AML stand for in the context of crypto regulation?**

A) Asset Management Ledger B) Anti-Money Laundering C) Automated Market Licensing D) Anonymous Market Ledger

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Answer: B AML (Anti-Money Laundering) targets illicit funds being layered through crypto to appear legitimate; CFT extends this to terrorist financing.

Q3. [Apply] A government wants to prevent crypto from being used to finance terrorist operations abroad. Which regulatory objective primarily applies?

A) Tax compliance B) Financial stability C) AML/CFT (Counter-Financing of Terrorism) D) Consumer protection

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Answer: C Terrorist financing falls under CFT, the "FT" in AML/CFT — regulators require VASPs to screen transactions and report suspicious activity.

Q4. [Apply] Country X prohibits all cryptocurrency trading, exchanges, and custody. Where does this policy fall on the regulatory spectrum?

- A) Permissive sandbox B) Light-touch registration C) Comprehensive licensing D) Outright ban

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Answer: D An outright ban sits at the most restrictive end of the spectrum; China's 2021 ban and Algeria's prohibition are examples.

Q5. [Analyze] Why do most jurisdictions avoid outright crypto bans despite concerns about illicit use?

- A) Bans are unconstitutional B) IMF prohibits member states from banning crypto C) Bans drive activity underground without eliminating it, forfeiting innovation and tax revenue D) Crypto cannot technically be banned

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Answer: C Bans push activity to P2P markets and foreign VASPs — the coordination problem remains unsolved while the jurisdiction loses economic benefits.

Q6. [Understand] **Under the Howey Test, how many prongs must ALL be satisfied for an instrument to qualify as a security?**
A) At least one B) At least two C) At least three D) All four

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Answer: D) All four prongs are required: (1) investment of money, (2) common enterprise, (3) expectation of profits, (4) from the efforts of others.

Q7. [Apply] **A new token promises 20% annual returns to holders, funded entirely from the founding team's trading profits. Under Howey, is it likely a security?**

A) No – digital tokens cannot be securities B) No – returns must be paid in USD C) Yes – it satisfies all four Howey prongs D) Only if listed on a US exchange

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Q8. [Apply] Which US federal agency classifies Bitcoin and Ether as commodities rather than securities?

A) SEC B) CFTC C) FinCEN D) OCC

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Answer: B The CFTC (Commodity Futures Trading Commission) has jurisdiction over Bitcoin and Ether futures and spot markets as commodities.

Q9. [Analyze] In SEC v. Ripple (2023), the court ruled XRP sold on public exchanges to retail buyers was NOT a security. What was the core legal reasoning?

- A) XRP is a currency, not an asset B) Retail buyers lacked privity with Ripple; the "efforts of others" prong was not met for anonymous exchange purchases C) The SEC lacked jurisdiction over foreign tokens D) Ripple registered XRP as a utility token

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Answer: B) Retail buyers on secondary markets had no contractual relationship with Ripple, breaking the "efforts of others" prong required for the investment contract test.

Q10. [Analyze] A utility token grants holders access to decentralized cloud storage with no profit-sharing or governance rights. Under Howey, is this token likely a security?

A) Yes – all tokens are securities by default B) Yes – storing data is a common enterprise C) No – it likely fails the profit expectation prong D) Only if sold via an ICO

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Answer: C) Without an expectation of profits from others' efforts, the third and fourth Howey prongs are not met — purely consumptive utility tokens generally fall outside securities law.

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Answer: B) MiCA (Markets in Crypto-Assets) is the EU's comprehensive regulatory framework, fully effective December 30, 2024, covering issuers and VASPs.

Q12. [Apply] Under MiCA, a EUR-pegged stablecoin backed 1:1 by euro deposits held in regulated banks is classified as what?

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Q14. [Analyze] What is the primary advantage of MiCA's rules-based approach compared to FINMA's principles-based approach?

- A) MiCA covers more token types B) FINMA is stricter C) MiCA provides legal certainty and passporting rights across all 27 EU member states D) MiCA allows algorithmic stablecoins

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Q15. [Analyze] China's e-CNY pilot has over 300 million registered users. What is the primary concern raised by privacy advocates?

- A) The e-CNY is too slow for retail payments B) Government can monitor and potentially control all transactions, enabling financial surveillance at scale C) The e-CNY lacks AML features D) The e-CNY is not backed by gold reserves

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Answer: B) A government-issued CBDC provides a direct surveillance channel; unlike cash, every e-CNY transaction can be logged, analyzed, and potentially blocked by the state.

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- A) Securities fraud B) Tax evasion C) AML (Anti-Money Laundering) rules D) Unlicensed derivatives trading

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Answer: C) Binance's settlement with DOJ, FinCEN, and OFAC centred on AML failures — inadequate KYC and allowing sanctioned entities to transact freely on the platform.

Q17. [Analyze] Why does regulatory arbitrage persist in global crypto markets despite increased enforcement?

A) Crypto transactions are technically untraceable B) No binding global coordination mechanism exists; firms can relocate operations to permissive jurisdictions C) All jurisdictions apply identical rules D) FATF enforcement is mandatory for all countries

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Answer: B) FATF recommendations are non-binding; without treaty-level coordination, exchanges migrate to Malta, Seychelles, or other light-touch regimes, perpetuating arbitrage.

Q18. [Apply] The FATF Travel Rule requires VASPs to collect and transmit originator and beneficiary identity data for crypto transfers above what threshold?

A) \$100 / €100 B) \$500 / €500 C) \$1,000 / €1,000 D) \$10,000 / €10,000

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Answer: C) FATF Recommendation 16 sets the threshold at USD/EUR 1,000 for cross-VASP transfers; below this, identity sharing is encouraged but not mandated.

Q19. [Evaluate] A country designing a retail CBDC faces a conflict: citizens demand transaction privacy, but the central bank must enforce AML law. Which design best balances both goals?

A) Full anonymity for all transactions B) Full identity disclosure for all transactions C) Tiered privacy: anonymous below a low threshold, identity-verified above it D) Ban CBDC and keep cash only

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Q20. [Evaluate] MiCA requires stablecoin issuers to hold 1:1 reserves and allow on-demand par redemption. Does this make stablecoins safer or restrict innovation?

A) Restricts innovation only – reserve rules kill algorithmic designs B) Safer only – reserves eliminate all risk C) Both: reserves protect consumers and prevent Terra-like collapses, but prohibit under-collateralized algorithmic stablecoins D) Neither – stablecoins are already safe without regulation

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Answer: C MiCA's reserve mandate protects consumers and removes systemic tail risk, but by design excludes algorithmic stablecoin models — a deliberate safety-over-innovation trade-off.