

Lesson 24: Regulation and the Future

Module 2: Blockchain Fundamentals

Digital Finance

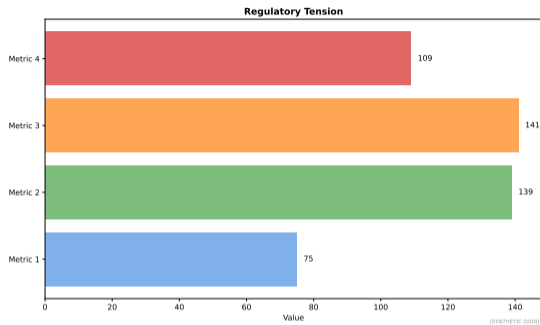
The Regulatory Challenge

Technology Characteristics:

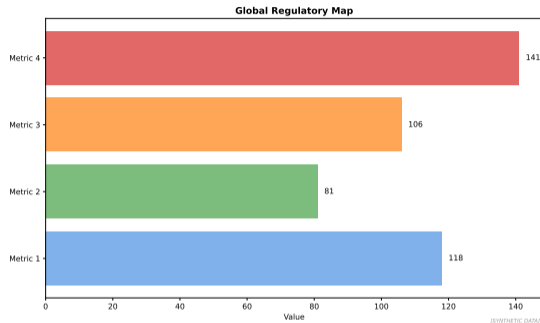
- Borderless and global
- Pseudonymous transactions
- Permissionless innovation
- Code-enforced rules
- Rapid evolution

Regulatory Concerns:

- Investor protection
- Money laundering (AML)
- Tax evasion
- Consumer fraud
- Systemic risk



Understanding limitations helps identify appropriate use cases and avoid over-engineering.



Spectrum:

- **Permissive:** Switzerland (Crypto Valley), Singapore, UAE, El Salvador
- **Moderate:** EU (MiCA), UK, Japan, South Korea
- **Restrictive:** US (fragmented), India (mixed signals)
- **Banned:** China, Morocco, Algeria, Egypt (mining/trading bans)

Source: Protocol documentation and distributed systems research

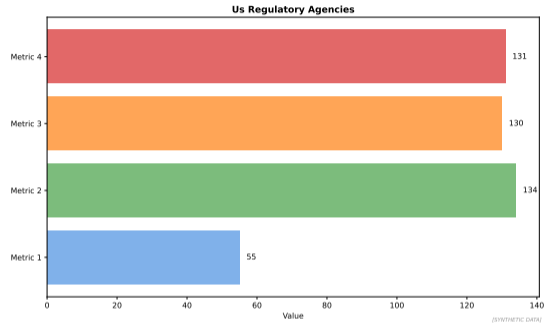
United States: Regulatory Fragmentation

Multiple Regulators:

- **SEC:** Securities (Howey Test)
- **CFTC:** Commodities (BTC, ETH)
- **FinCEN:** AML/KYC
- **OCC:** Banks and stablecoins
- **IRS:** Taxation (property treatment)
- **State:** Money transmitter licenses

Challenges:

- Overlapping jurisdiction
- Regulation by enforcement
- Unclear token classifications



Source: Protocol documentation and distributed systems research

The Howey Test: Security vs Commodity

Supreme Court Test (1946): Four criteria for a security

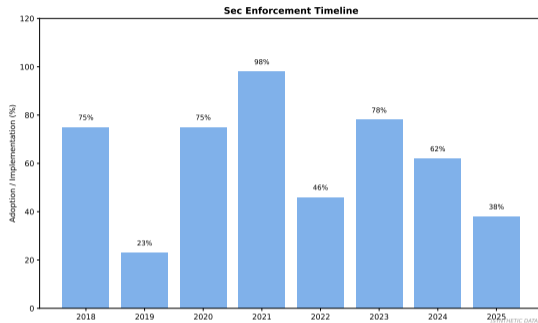
- 1 Investment of money
- 2 In a common enterprise
- 3 With expectation of profits
- 4 Derived from efforts of others

Application to Crypto:

- **Bitcoin:** Commodity (sufficiently decentralized, no central promoter)
- **Ethereum:** Gray area (was security at ICO, now commodity per SEC)
- **Most ICO tokens:** Securities (team-driven, profit expectation)
- **XRP:** Lawsuit ongoing (Ripple vs SEC, mixed rulings)

Implication: Securities require registration, compliance costs prohibitive for many projects

Understanding the process flow is key to identifying optimization opportunities.



Major Cases:

- **2020:** Telegram (TON), \$1.2B returned to investors, project cancelled Case concluded May 2025: SEC dropped appeals, \$50M settlement¹
- **2023:** Coinbase, Binance sued for operating unregistered exchanges
- **2023:** Kraken settled staking-as-securities case (\$30M)

Source: Protocol documentation and distributed systems research

¹Source: <https://www.nysd.uscourts.gov/sites/default/files/2023-07/SECvsRipple7-13-23.pdf>

Markets in Crypto-Assets (MiCA): Comprehensive framework (effective 2024)

Key Provisions:

- **Stablecoins:** Reserve requirements, redemption rights, daily transaction limits
- **Crypto Exchanges:** Licensing, consumer protection, segregation of funds
- **Token Issuers:** Whitepaper requirements, disclosures
- **AML/KYC:** Travel Rule (identify transaction parties)
- **DeFi:** Unclear, may require centralized interfaces to comply

Impact:

- Clarity for institutional adoption
- Compliance costs favor established players
- Potential stifling of innovation

Regulatory frameworks shape adoption patterns and industry structure.

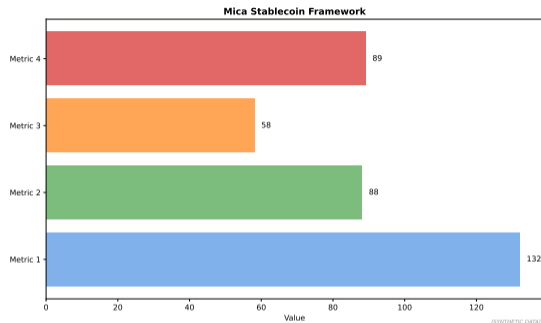
MiCA: Stablecoin Provisions

Requirements:

- 1:1 reserve backing (audited)
- Redemption at par value
- Daily transaction cap: 200M EUR
- Issuers must be EU-based or licensed

Implications:

- Tether may exit EU market (lack of transparency)
- Circle (USDC) likely compliant
- Boost for EUR-denominated stablecoins



Stablecoins bridge traditional and crypto finance by maintaining price stability.

FATF Travel Rule (2019):

- Virtual Asset Service Providers (VASPs) must share customer info for transactions >\$1000
- Sender and receiver identity transmitted
- Same as traditional banking wire transfers

Challenges for Crypto:

- Self-hosted wallets (DeFi, DEX) exempt (for now)
- Privacy coins (Monero, Zcash) incompatible
- Cross-jurisdictional enforcement difficult

Industry Response:

- Exchanges implement Travel Rule solutions (Chainalysis, Elliptic)
- Privacy advocacy (coin mixing, zero-knowledge proofs)

AI and ML are transforming financial services through automation and prediction. [Source: Juniper Research 2024]

Taxation: Reporting and Compliance

US (IRS):

- Crypto = property (capital gains tax)
- Every trade is taxable event
- Reporting effective for transactions in 2025, first reports due 2026^a
- Penalties for non-compliance

Challenges:

- Tracking DeFi transactions
- Cost basis calculation (FIFO, LIFO)
- Cross-chain complexity
- NFT sales, staking rewards

^aSource: <https://www.irs.gov/businesses/digital-assets>

Crypto Tax Flow



[SYNTHETIC DATA]

Tools: CoinTracker, Koinly, TaxBit (automated reporting)

Source: Protocol documentation and distributed systems research

Regulatory Dilemma:

- DeFi protocols are code (no company, no office)
- DAO governance (token holders, pseudonymous)
- Borderless, permissionless access
- How to regulate code?

Regulatory Strategies:

- **Front-End Restrictions:** Geo-blocking, compliance layers (Uniswap blocks US users from interface)
- **Developer Liability:** Tornado Cash sanctions (OFAC), developer arrested
- **DAO as Legal Entity:** Wyoming DAO LLC, attempting legal clarity

Debate: Can truly decentralized protocols be regulated, or only centralized intermediaries?

DeFi recreates traditional financial services in a permissionless, programmable way.

Tornado Cash: From Sanctions to Reversal (2022-2025)

Background:

- Tornado Cash: Privacy mixer (breaks transaction links)
- Used by North Korean hackers to launder **\$455M**
- Also used for legitimate privacy

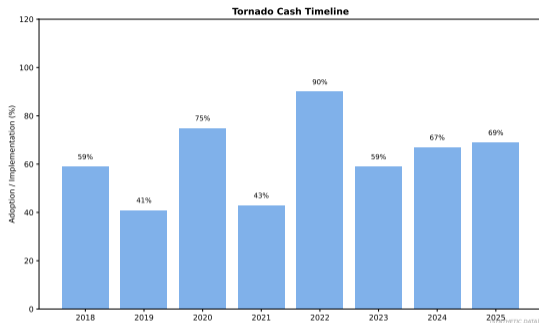
OFAC Action (Aug 2022):

- Sanctioned Tornado Cash smart contracts
- Developer Alexey Pertsev arrested (Netherlands)

Outcome (2024-2025):

- Fifth Circuit overturned sanctions (Nov 2024)^a
- Treasury removed sanctions (Mar 2025)

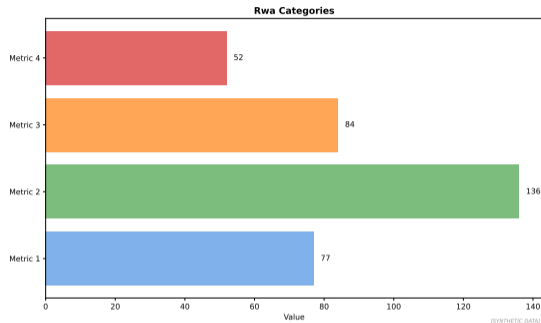
^aSource: <https://cyberscoop.com/tornado-cash-sanctions-overturned-lazarus-group/>



Controversy: Sanctioning code vs people, chilling effect on privacy tech, First Amendment debate

Landmark case: immutable smart contracts cannot be “property” under sanctions law. [Source: Industry reports 2024]

Real-World Assets (RWA): Tokenization Trend



Concept: Tokenize real-world assets on blockchain (ownership represented by tokens)

Examples:

- **Real Estate:** Fractional ownership of properties (Propy, RealT)
- **Bonds:** US Treasury tokens (Ondo Finance, Franklin Templeton)
- **Commodities:** Gold (PAXG), carbon credits
- **Private Credit:** Centrifuge, Goldfinch (on-chain lending to businesses)

Tokens represent digital assets and enable new business models on blockchain.

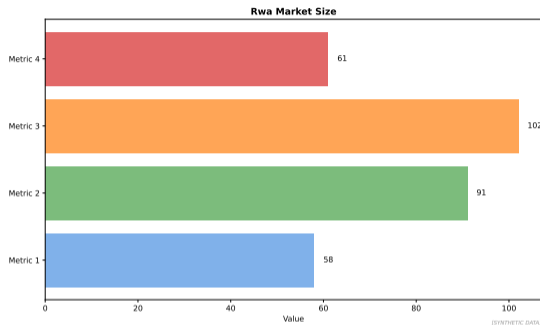
RWA: Benefits and Challenges

Benefits:

- 24/7 trading (vs traditional hours)
- Fractional ownership (democratization)
- Programmable compliance (automatic KYC)
- Global liquidity pools
- Reduced intermediaries

Challenges:

- Legal enforceability (blockchain vs courts)
- Custody of physical assets
- Regulatory complexity (securities laws)
- Oracles for off-chain events



Projected Market: \$16 trillion by 2030 (BCG estimate)

Understanding limitations helps identify appropriate use cases and avoid over-engineering. [Source: Chainalysis, CoinGecko 2024]

CBDCs: Central Bank Competition

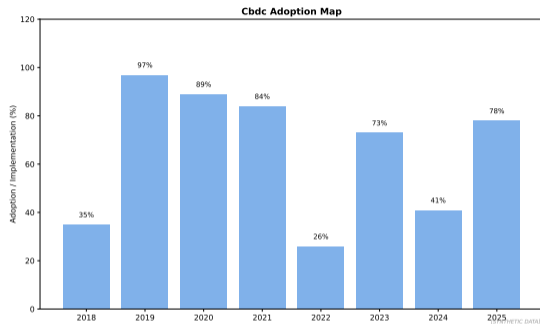
Motivations:

- Compete with private stablecoins
- Financial inclusion (unbanked)
- Efficient cross-border payments
- Monetary policy tools
- Surveillance and control

Status (2024):

- 130+ countries exploring 3 fully launched (Bahamas, Jamaica, Nigeria); China, India in extended pilots^a
- EU digital euro (pilot)
- US digital dollar (research)

^aSource: <https://www.atlanticcouncil.org/cbdctracker/>



Banks play a central role in the financial system as intermediaries.

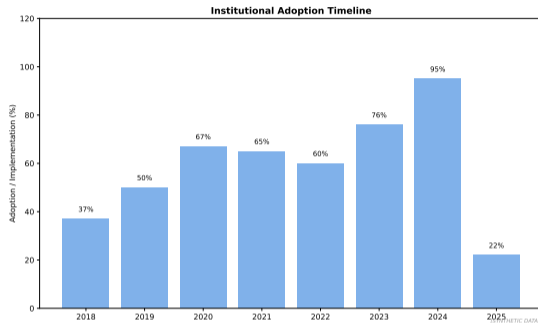
CBDCs vs Crypto: Fundamental Differences

Aspect	CBDCs	Cryptocurrencies
Issuer	Central bank	Decentralized protocol
Control	Centralized (programmable restrictions)	User sovereignty
Privacy	Tracked by government	Pseudonymous (varies)
Monetary Policy	Central bank sets supply	Algorithmic or fixed supply
Censorship	Possible (freeze accounts)	Resistant (non-custodial wallets)
Innovation	Limited (government pace)	Permissionless

Concern: CBDCs may enable unprecedented surveillance and control over spending

Source: Protocol documentation and distributed systems research

Institutional Adoption: The Turning Point



Milestones:

- **2020:** MicroStrategy buys \$425M BTC (corporate treasury)
- **2021:** Tesla (\$1.5B BTC), Coinbase IPO, Bitcoin ETFs in Canada
- **2024:** Bitcoin Spot ETFs approved in US (BlackRock, Fidelity), \$50B+ inflows
- **2024:** Ethereum ETFs approved (slower adoption)

Source: Protocol documentation and distributed systems research

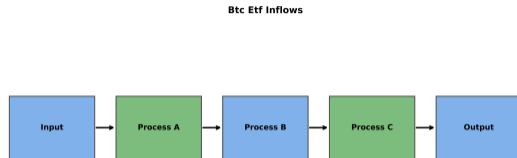
Bitcoin ETFs: Wall Street Embraces Crypto

Why ETFs Matter:

- Easy access for traditional investors
- No self-custody complexities
- Regulated products (SEC oversight)
- Institutional allocations unlocked

Jan 2024 Approval:

- 11 spot Bitcoin ETFs (BlackRock IBIT, Fidelity FBTC, Grayscale GBTC)
- Record inflows: **\$50B** in 10 months
- Bitcoin price: **\$40K** → **\$100K+**



[SYNTHETIC DATA]

Bitcoin remains the largest cryptocurrency by market cap and network security. [Source: Blockchain.com, CoinMetrics 2024]

Emerging Use Cases: Beyond Speculation

- **Supply Chain:** IBM Food Trust, VeChain (provenance tracking)
- **Identity:** Self-sovereign identity (Civic, uPort)
- **Healthcare:** Medical records on blockchain (MedRec)
- **Voting:** Secure, transparent elections (experimental)
- **Energy:** Peer-to-peer energy trading (Power Ledger)
- **Gaming:** Play-to-earn, NFT ownership (Axie Infinity, Decentraland)
- **Music/IP:** Royalty distribution, rights management (Audius)

Caveat: Many pilots, few scaled solutions (infrastructure, UX, regulation still barriers)

Real-world applications demonstrate the practical value of blockchain technology.

Scalability: The Path Forward

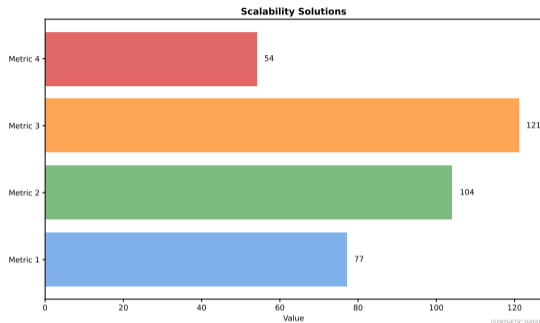
Current Bottlenecks:

- Ethereum: 15 tx/s
- Bitcoin: 7 tx/s
- High fees during congestion

Solutions:

- **Layer 2:** Rollups (Arbitrum, Optimism, zkSync), sidechains (Polygon)
- **Sharding:** Ethereum roadmap (data availability sampling)
- **Alt Layer 1s:** Theoretical 65K TPS; observed max $\sim 5,289$ TPS; average ~ 607 TPS^a, Avalanche, Sui

^aSource: <https://chainspect.app/chain/solana>



Source: Protocol documentation and distributed systems research

Rollup Architecture



[SYNTHETIC DATA]

Mechanism:

- Execute transactions off-chain (Layer 2)
- Bundle hundreds of transactions
- Post compressed data to Ethereum (Layer 1)
- Inherit Ethereum security

Types: Optimistic (fraud proofs, 7-day withdrawal) vs ZK (validity proofs, instant finality)

Ethereum pioneered smart contracts and remains the dominant platform for DeFi and NFTs.

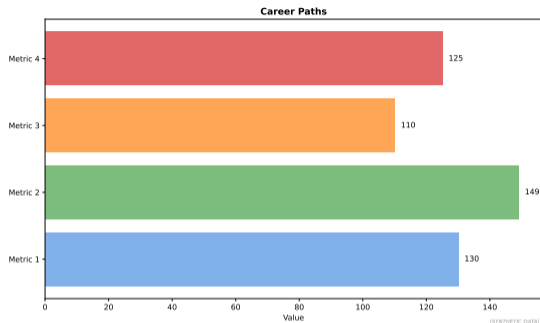
Careers in Blockchain

Technical Roles:

- Smart contract developer (Solidity, Rust)
- Blockchain engineer (protocol dev)
- Security auditor
- DevOps (node infrastructure)
- Data analyst (on-chain analytics)

Non-Technical:

- Product manager
- Compliance/legal specialist
- Community manager
- Business development
- Tokenomics designer



Salaries (2024): Smart contract dev: \$100K–\$250K, auditor: \$150K–\$300K+

AI and ML are transforming financial services through automation and prediction. [Source: Chainalysis, CoinGecko 2024]

For Developers:

- 1 Learn Solidity (CryptoZombies, Ethernaut challenges)
- 2 Study OpenZeppelin contracts (best practices)
- 3 Build projects (token, DEX, NFT marketplace)
- 4 Contribute to open source (DAO, protocol development)
- 5 Participate in hackathons (ETHGlobal)

For Business/Finance:

- 1 Understand fundamentals (this course)
- 2 Use DeFi protocols hands-on (testnet first)
- 3 Follow industry (Twitter/X crypto, podcasts)
- 4 Certifications (Certified Blockchain Professional)
- 5 Join communities (DAOs, Discord servers)

Source: Protocol documentation and distributed systems research

The Future: Predictions and Trends

Likely (5 years):

- Regulatory clarity in major jurisdictions (MiCA model spreads)
- Mass adoption of stablecoins for payments (especially developing countries)
- Institutional Bitcoin/ETH holdings normalized (pension funds, endowments)
- Layer 2 dominance (Ethereum as settlement layer)
- RWA tokenization (\$1T+ market)

Speculative:

- National Bitcoin reserves (El Salvador precedent)
- DeFi replaces significant traditional finance (DEXs > CEXs volume)
- Zero-knowledge proofs mainstream (privacy + compliance)
- Interoperability solved (seamless cross-chain)

Future trends inform strategic planning and investment decisions.

Philosophical Questions

- **Decentralization vs Efficiency:** Can we have both, or must we choose?
- **Code is Law:** Should immutable contracts override legal recourse?
- **Privacy vs Transparency:** How to balance anti-money laundering with individual privacy?
- **Inequality:** Does crypto democratize finance or amplify wealth concentration?
- **Environmental Impact:** Is PoW's energy use justified by its security?
- **Governance:** Can token-based voting be truly democratic, or plutocratic?

No Easy Answers: These trade-offs define the ongoing evolution of blockchain technology

Key insight: philosophical questions is essential for modern finance.

Journey Recap (Lessons 13–24):

- **Foundations:** Blockchain structure, hashing, cryptography
- **Consensus:** PoW vs PoS, energy trade-offs
- **Architectures:** Bitcoin UTXO, Ethereum smart contracts, gas
- **Tokens:** ERC-20, NFTs, tokenomics
- **DeFi:** AMMs, lending, flash loans, impermanent loss
- **Stablecoins:** Terra/Luna collapse, design trade-offs
- **Security:** Hacks, best practices, audits
- **Regulation:** MiCA, SEC, CBDCs, RWA, future trends

Blockchain is:

- Not a panacea for all problems
- Not inherently good or bad (tool, like the internet)
- Still experimental (expect volatility, failures, evolution)
- Requires critical thinking (hype vs reality)

Your Role:

- Stay informed (technology evolves rapidly)
- Experiment responsibly (testnet first, small amounts)
- Question assumptions (“decentralized” often isn't)
- Focus on use cases (technology is means, not end)

Thank you for engaging with Module 2: Blockchain Fundamentals

Source: Protocol documentation and distributed systems research

Swiss DLT Act (August 2021):

- Ledger-based securities (Registerwertrecht)
- Direct on-chain transfer of rights
- DLT trading facility license
- Bankruptcy segregation for crypto

Crypto Valley (Zug):

- Home to Ethereum Foundation
- 1,000+ blockchain companies
- First city to accept BTC for taxes (2016)

FINMA Token Framework:

- Payment, Utility, Asset tokens
- Hybrid classifications possible
- ICO Guidelines since 2018

Key Achievements:

- SIX Digital Exchange (2021)
- CHF 750M+ tokenized bonds
- SNB wholesale CBDC pilot

Switzerland's regulatory clarity attracted major blockchain projects and established Zug as "Crypto Valley." Source: Swiss DLT Act, FINMA