Why cryptocurrency regulation is essential

With a recent Luno survey quoting a staggering 74% of South African respondents saying they'd like the option to pay for goods with cryptocurrency, the days of an entirely unregulated system are numbered.

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Regulation allows for cryptocurrencies to be used in the financial system properly, and fairly. This is in strong contrast to the current scenario where there is no guarantee as to the origin of funds, leaving the system open to abuse by individuals who don't want to attract the attention of the authority.

"The first phase of the proposals – to get everyone on the book and registered if offering crypto-asset services – is a good start, and I believe new regulations will align very well with the current overhaul by the Financial Services Conduct Authority (FSCA) that is reshaping how financial services will be going forward. Crypto-assets should have a place in the future portfolio asset mix." says Richard Rattue, managing director of Compli-Serve.

Will crypto lose its shine?

Regulation is highly unlikely to impact the value of cryptocurrencies. "I believe that the regulations could actually have a stabilising effect on the currently volatile cryptocurrency market space. The vast majority of individuals will not be put off by regulations coming in," he says.

In terms of taxation, there is no doubt the crypto space will fall under the watch of the South African Revenue Service (Sars) eventually. The reality is that all countries, with a few exceptions, are struggling to find money for their fiscus. There is already a lot of upset around cross-border taxation with multi-national companies moving profits into countries that are low tax jurisdictions. Understandably global tax authorities are looking to clamp down on this practice, to make sure that companies pay their fair portion of tax. It is therefore again almost certain that cryptocurrencies will be taxed in the future. There is simply no way government can afford to lose a potentially significant taxable flow avoiding the fiscus.

"It is likely that if you transact in a cryptocurrency in South Africa, you will be taxed locally but you will have to transact in a regulated, or authorised currency. If you transact in an unauthorised cryptocurrency, you could be going against current Sars rules, but it remains to be seen how the taxation process, and proposed regulations will play out," Rattue explains.

What awaits

When cryptocurrencies are regulated, they will be seen the same as any other asset, and in the case of divorce or death, for example, would be a dark mess to sort out without some legal framework in place, so regulation can only improve realities.

"I agree with the phased approach motivated by the regulator to applying regulation to cryptocurrencies, keeping an eye on how other jurisdictions are dealing with the process. There will be challenges and while it will take time, it’s clear that cryptocurrencies will be regulated sooner or later, and it will be interesting to see, once the comments have been considered, how the regulator determines the best way forward locally," he says.