

Research on Issues and Countermeasures in the Regulation of Non-Sovereign Digital Currencies in China

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Abstract: In recent years, with the deepening trend of globalization, the financial market has become more prosperous, and all kinds of financial technology products and services have emerged worldwide. Blockchain technology can be said to be the most disruptive financial technology innovation of our time, and non-sovereign digital currency, as a product of the in-depth fusion of the traditional financial industry and blockchain technology, faces both traditional financial risks and underlying technological risks in its development. Therefore, this is both an opportunity for the development of the industry and a new challenge for the regulatory system. As more and more countries recognize the role of digital currencies in business applications and value creation, China's blanket ban on the exploration and development of non-sovereign digital currencies may not be the most appropriate choice. This paper analyzes the problems arising from the implementation process of digital currency regulatory policy changes, explores how to further strengthen the regulation of non-sovereign digital currencies, improves the construction of the financial regulatory system, and avoids the recurrence of the problems that emerged during the development of Internet finance in the wave of digital currencies is the original intention of this paper's topic selection.

Keywords: Non-Sovereign Digital Currencies; Internet Finance; Regulation; Financial Risk

1. Introduction

In recent years, with the continuous progress of the digital economy and the rapid development of financial science and technology, blockchain technology has also become increasingly mature, and the public has gradually accepted non-sovereign digital currencies, which has led to their application in more fields. However, at the same time, the sharp fluctuations in the price of non-sovereign digital currencies, the impact of highly leveraged financial derivatives on the financial market and the vulnerability to cross-border money laundering, arbitrage and other illegal acts have gradually been exposed, which has attracted the attention of the regulatory authorities of various countries. Due to the different national conditions of different countries, the regulatory policies for non-sovereign digital currencies vary. In mainland China, regulators have adopted strict controls on the regulatory policy of non-sovereign digital currencies.

2. Analysis of Problems and Reasons for the Regulation of Non-Sovereign Digital Currencies in China

The legitimacy of the existing regulatory norms in the legal regulations is open to question. Most of the existing regulatory norms were conceived within a short period of time after the development of non-sovereign digital currencies caused problems, and the process of drafting and releasing them is far from being the same as the strictness of the legislative process. The content of the documents is ambiguous and divergent, and in the absence of a higher law, the legal effect of direct prohibitions on financial institutions and other direct business sectors is questionable.⁹⁴ Following the Announcement, the regulator has taken a series of mandatory administrative measures, such as calling a halt to ICOs and shutting down accounts and cooperation with financial institutions of non-sovereign digital currency-related companies. However, the legality of these measures, which are based on the aforementioned "notices", "announcements" and even "reminders", is also open to question.

Non-sovereign digital currencies, like Internet finance, have been criticized as "Ponzi schemes" and "destructive innovations". It is not difficult to see from China's regulatory practice of non-sovereign digital currencies that China generally has a negative attitude towards non-sovereign digital currencies, and its regulatory policy is not very different from that of traditional finance. The regulator's vision is bound by the rule-based regulatory concept guided by traditional regulatory thinking, which focuses more on regulating financial innovations after

problems arise and lacks guidance and encouragement of innovations before problems arise, which has also caused traditional financial regulation to be hit harder than ever before before the disruptive innovations of fintech. The traditional regulatory mindset can delay the development of innovation, but it cannot control the direction of its advancement.

3. Countermeasure Suggestions for Improving the Regulation of Non-Sovereign Digital Currencies in China

From the perspective of China's regulatory practice, although the model of multi-sectoral joint regulation has a wider coverage, under this model, the more sectors involved in regulation, the difficulty of coordination will also increase geometrically. For this reason, in order to maximize regulatory efficiency and prevent the risk of non-sovereign digital currencies from spreading to more areas, it is highly likely that a simple "one-size-fits-all" approach will be adopted in multi-sectoral co-regulation - after all, it is more difficult to take into account the different performance responsibilities and harmonize regulatory opinions than to take into account the different responsibilities and harmonize regulatory opinions of the various regulatory departments. After all, it is simpler and less costly to stop the development of new things than to take care of the different responsibilities of each regulator and harmonize regulatory opinions. Therefore, in the process of regulating non-sovereign digital currencies, the first step should be to identify a clear regulatory body. According to the above, the legal attributes of non-sovereign digital currencies can be categorized and clarified according to their actual application scenarios, and most of the non-sovereign digital currencies can be included in the legal attributes of securities or assets, so we can learn from the regulatory experience of the United Kingdom and the United States, and the People's Bank of China can carry out the top-level design, plan the basic regulatory framework, and take the lead in the construction of anti-money-laundering and credit mechanisms in the field of digital currencies.

The decentralized technical characteristics of non-sovereign digital currencies themselves determine that they can flow freely among countries, but the regulatory systems and policies vary from country to country, so there will always be regulatory gaps in the regulation of non-sovereign digital currencies in a single country. Therefore, in addition to relying on trading platforms, industry associations and other organizations, regulators also need to strengthen international cooperation on the regulation of non-sovereign digital currencies. In recent years, China's capital market development is very rapid, and gradually become an important international financial center, so in the face of the development of non-sovereign digital currencies to bring great value and challenges can not stand still, should take the initiative to strike, based on the international perspective, and take the initiative to seek regulatory cooperation with other countries, to build up a transnational regulatory system. On the one hand, in order to promote the standardized development of the industry, we should strengthen technical exchanges, promote the establishment of unified technical specifications, expand the field of application, and take the lead in the international competition of non-sovereign digital currencies, and become the maker of technical rules and the leader of regulatory norms. On the other hand, in order to ward off the occurrence of terrorist financing, cross-border money laundering and other crimes, it is necessary to strengthen the intelligence and information-sharing mechanism with other countries, sign cooperation agreements to jointly combat crime, collaborate on the verification of international fund flows and the extradition of criminals, enhance the fight against the use of non-sovereign digital currencies to commit crimes, and realize the transnational regulation and international co-rule of non-sovereign digital currencies.

4. Conclusion

China's suppressive attitude towards non-sovereign digital currencies has reduced the generation of surface risks in a short period of time, but administrative orders cannot eliminate technological innovation, and the reasons for risks still exist. From the perspective of long-term development, the ban-style regulation has hit the enthusiasm and confidence of financial innovation, making China's non-sovereign digital currency in the global development of the loss of early first-mover advantage, but also let the financial regulation and innovation gradually to the antithesis. Therefore, China should change its regulatory concept of treating financial innovation in a timely manner in the future, and should not rely on the ex post facto regulatory path guided by the traditional regulatory mindset, and should not only "cure the disease", but also "cure the disease", and should focus its regulatory efforts on encouraging innovation and strengthening guidance before the problem

occurs. Innovation and guidance should be strengthened.

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