Basic Information and Regulation of Cryptocurrency in the Philippines and Other Association of the Southeast Asian Nations Member States*

I. INTRODUCTION

The advancement of the digital economy has paved the rise of digital currencies or assets in other appreciation. Such emerging innovative technologies build-up the society engaged in digital currencies, or simply known as cryptocurrencies. This digital or virtual currency (VC) is a decentralized network distributed across a large computed network that uses blockchain technology to ensure the integrity of such digital assets from counterfeit or double-spend (Frankenfield, 2021).

This paper presents a brief overview of cryptocurrency, digital assets, regulation in other member states of the Association of Southeast Asian Nations (ASEAN), and potential taxes on cryptocurrency.

II. BACKGROUND INFORMATION

A. Cryptocurrencies and the blockchain technology

The market for digital or virtual assets (VAs) has been growing and changing rapidly across the world. The first and most popular VA today is the cryptocurrency, which has experienced significant growth and volatility in value. Bitcoin (BTC) was created as an alternative to the traditional system, where transactions can be reversed or meddled by third parties along with the imposition of higher transaction costs (Likos & Hicks, 2022). It offers an alternative system based on blockchain technology [1] and a decentralized peer-to-peer electronic exchange, where a

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[1] Cryptocurrency, being decentralized, operates on a distributed ledger or a shared transaction list called blockchain. The “block” is composed of chunks of encrypted data. The “chain” is the public database in which the blocks are stored and sequentially related to each other. Every block in the blockchain has a specific code that distinguishes itself from all other blocks in existence. This unique code is called a hash. Blocks of information being added to a blockchain are added chronologically. A new block is added directly after the last block created, which also has its own unique hash. The ledger or database of blocks in the chain is simultaneously distributed worldwide spread among millions of computers (Chu, n.d.).

cryptographic[2] proof is used to maintain the integrity of the network instead of relying on third-party banks and other institutions. In this way, people can send money to one another without a bank or third party as intermediary.

The Congressional Research Service (CRS) (2020) defined cryptocurrency as "digital money in electronic payment systems that generally do not require government backing or the involvement of an intermediary, such as a bank". Unlike shares of stock, which have strong ties to the world's hard assets, cryptocurrencies are purely digital assets because they only exist in the virtual world. Cryptocurrency has potential economic efficiency because it is operated in a decentralized system through the internet that will be less costly compared to traditional systems and existing infrastructure[3].

As of February 2022, more than 10,397 cryptocurrencies are available in the International market (Best, 2022). An example is Bitcoin, which can be traded in two ways — through exchange or direct buying. The exchanges are websites that allow an individual to buy, sell, or exchange cryptocurrency for other digital currencies or fiat currencies like US Dollar or Euro. On the other hand, direct buying allows someone to directly exchange fiat money for Bitcoin (Maria, n.d.). In the Philippines, some popular cryptocurrency trading platforms include Binance, Coins.ph, PDAX, Coinbase, and eToro (JuanTax, n.d.). Traders in the exchanges may be charged fees for every transaction and be subject to exchange rate fluctuation. Cryptocurrency can be stored in digital wallets.

Figure 1 illustrates the cryptocurrency trading process. In Stage 1, the trader buying the cryptocurrency should first use the domestic currency or fiat money to buy or convert to a primary or base cryptocurrency. Since there are a large number of cryptocurrencies in existence today, the base cryptocurrency, such as Bitcoin[4], may be used to buy other forms of cryptocurrency. If the trader intends only to buy these base cryptocurrencies, the trading process is already done at stage 1. However, if the trader intends to buy altcoins[5], the trader needs to open a cryptocurrency exchange that only accepts cryptocurrency deposits. In Stage 2, the exchange does not accept fiat or domestic money to buy another cryptocurrency. Thus, the trader should use the base currency (Bitcoin, Ethereum, and Litecoin) to convert to other altcoins. In this part, the altcoins are quoted in the base cryptocurrency instead of the domestic currency or fiat money.

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[2] Cryptocurrency received its name because it uses encryption to verify transactions. This means advanced coding is involved in storing and transmitting cryptocurrency data between wallets and to public ledgers. The aim of encryption is to provide security and safety. On the other hand, crypto wallets refer to physical devices or online softwares used to store the private keys to secure the cryptocurrency. (Kaspersky, n.d.)

[3] Banks and other financial institutions charge various fees to users of their system to recoup costs as well as earn profits

[4] Some platforms allow to use other crypto such as Ethereum and Litecoin as the base.

[5] Refers to any type of cryptocurrency other than Bitcoin (deMatteo, 2022).

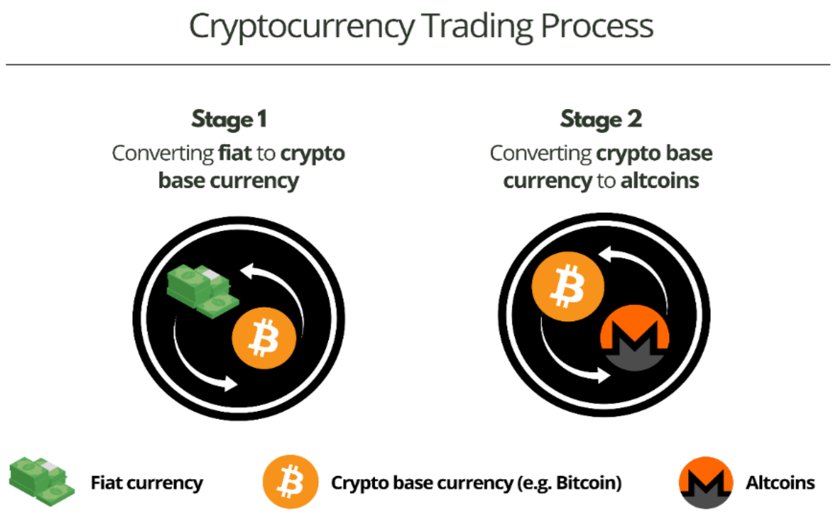

Figure 1. Cryptocurrency trading process. Adopted from Masterthecrypto. (n.d.). Cryptocurrency Trading: Understanding Cryptocurrency Trading Pairs & How It Works. https://masterthecrypto.com/understanding-cryptocurrency-trading-pairs-works/

The following are the existing transactions that can earn money with cryptocurrency:

a. Investing and trading. Investing in the long-term strategy of buying and holding crypto assets for some time, while trading is meant to exploit short-term opportunities (Gogol, 2022);

b. Mining. Computers are used to mine Bitcoin (i.e., use the computational power to help verify certain transactions on the blockchain and be rewarded with Bitcoin or other coins) (Maria, n.d.);

c. Lending. Traders who need margin and leverage borrow coins to trade with and will give back the same amount with some commission (Maria, n.d.); and

d. Staking. Holding cryptocurrency in an account and letting it collect interest and fees as those funds are committed to blockchain validators (Gallaga, 2022).

Moreover, the blockchain technology is a specific type of database system that stores information in a manner that makes it difficult or impossible to modify, hack or defraud. A node broadcasts the transaction request to a peer-to-peer network for confirmation. If confirmed, the transactions will be grouped as what is known as blocks that will be chained to the previously filled blocks before the transaction is completed. BTC uses the decentralized blockchain where any single person or group does not retain control of the digital assets. In this way, BTC transactions are irreversible, permanently recorded and viewable to anyone (Conway, 2021$_a$).

In general, BTC is the de facto cryptocurrency in the pack of cryptocurrencies in terms of market capitalization, user base, and popularity. This cryptocurrency takes the form of tokens or “coins” and exists on distributed and decentralized ledgers. Other than BTC, alternate virtual currencies have new features such as handling more transactions per second or using different consensus algorithms like proof of stake (Conway, 2021_b). (See Table 1.)

Table 1

Ten Most Important Cryptocurrencies Other Than BTC

Cryptocurrency/Coin	Abbreviation	Particulars
Ethereum	ETH	The purpose of the creation of ETH is to decentralize a suite of financial products, which anyone can freely access services like banks, loans, insurance, and other financial products.
Litecoin	LTC	LTC is considered “silver to Bitcoin’s gold”, which used a “scrypt” as proof of wear on the open-source global payment network. LTC is a much faster block that generates a rate equivalent to faster transaction confirmation.
Cardano	ADA	ADA objectives are similar to ETH, dubbed the “ETH killer”. ADA also provides a solution for chain interoperability, voter fraud, and legal contract tracing, among others.
Polkadot	DOT	DOT aims to deliver interoperability among other blockchains, its protocol is designed to connect permissions/-less blockchains, as well as oracles, to allow the system to work together.
Bitcoin Cash	BCH	BCH is using hard fork technology that refers to a radical change to the protocol of a network that makes previously invalid blocks and transactions valid, or vice-versa
Stellar	XLM	XLM provides an enterprise solution to financial institutions that ease the process with large transactions, such as transactions between banks and investment firms.

Cryptocurrency/Coin	Abbreviation	Particulars
Chainlink	-	Chainlink is also a decentralized oracle network that allows smart contracts to communicate with outside data, which the ETH cannot connect to.
Binance Coin	BNB	BNB is a utility coin that serves as a mode of payment for fees for trading on the Binance Exchange.
Tether	USDT	USDT is considered a stablecoin, whose value is directly tied to the US dollar to smooth out price fluctuations or to avoid dramatic volatility.
Monero	XMR	XME is an open-source cryptocurrency whereby the development of such token is completely donation-based and community-driven. This decentralization enables complete privacy by using “ring signatures” that appear in a group of cryptographic signatures, including at least one real participant. The security mechanism of XMR is linked to criminal operations, which makes digital transactions anonymously.

Note. Gathered from Investopedia, 2021.

B. Cryptocurrency in the Philippines

In 2014, Bitcoin was slowly gaining usage/popularity in the Philippines. The Bangko Sentral ng Pilipinas (BSP) issued a cautionary directive advising the public of the features, benefits, and attending risks when dealing with VCs.[6] Eventually in 2017, following the rise in the use of VCs for payment and remittances in the Philippines, the BSP issued Circular No. 944[7] establishing a formal regulatory framework for Virtual Currency Exchanges (VCEs).

The Circular defined VCs as any digital unit used as a medium of exchange or a form of digitally stored value created by agreement within the community of VC users. The VCs are not issued nor guaranteed by any jurisdiction and do not have legal tender status. They shall be broadly construed to include digital units of

[6] BSP’s Warning Advisory on Virtual Currencies, (March 6, 2014).

[7] BSP Circular No. 944 Series of 2017, entitled, “Guidelines for Virtual Currencies (VC) Exchanges”, (February 6, 2017).

exchange that: (a) have a centralized repository or administrator; (b) are decentralized and have no centralized repository or administrator; or (c) may be created or obtained by computing or manufacturing effort.

Likewise, the said Circular covers VCEs in the Philippines offering services or engaging in activities that provide facilities for converting or exchanging of fiat currency to VC or vice versa. It requires the VCEs to register as remittance and transfer companies with the BSP. Likewise, they are required to put in place adequate safeguards to address the risk associated with the VCs.

Later that same year, the BSP issued another advisory in response to unscrupulous fraudsters or groups that tried to entice consumers to invest in Bitcoins or VCs packaged as an Initial Coin Offering (ICO)[8]. The advisory warned consumers to be cautious in dealing with VCs, only maintain VCs sufficient to meet their transactional requirements, and adopt sound security measures to protect their VC accounts. The advisory also reiterated that the BSP does not endorse VCs as a currency or an investment instrument due to their highly-speculative and risky nature.

In relation to ICO, the Securities and Exchange Commission in August 2018 requested comments on the initial draft rules on ICO in recognition of the recent financial innovations of raising funds for ventures or businesses using the internet platform. The rules shall primarily govern the conduct of ICOs wherein convertible security tokens are issued by start-ups and/or registered corporations organized in the Philippines and start-ups and/or corporations conducting ICOs targeting Filipinos through online platforms. Second and third requests for public consultation were issued in December 2018 and January 2019, respectively.

In recognition of the evolving nature of financial innovation, the BSP has decided to refer to VCs as defined under Circular No. 944 as VAs pursuant to Circular No. 1108 dated January 26, 2021.[9] The BSP adopted the leading standards such as the Financial Action Task Force Recommendation on anti-money laundering and counter-terrorist financing standards to provide a flexible regulatory framework to handle a fast-moving and technologically dynamic sector.

As defined in BSP Circular No. 1108, VAs expands the definition of VCs, currently defined as any digital unit that can be digitally traded, transferred, and used for payment or investment purposes. It can be defined as a “property”, “proceeds”, “funds”, “funds or other assets”, and other “corresponding value”. It is used as a medium of exchange or a form of digitally stored value created by agreement within the community of VA users. Moreover, the transfer or exchange of VAs is now facilitated by Virtual Asset Service Providers (VASPs). As of March 2022, there were 19 listed VASPs in the BSP.

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[8] Refers to distributed ledger technology fundraising operations involving the issuance of tokens in return for cash, other cryptocurrencies or other assets.

[9] Entitled, “Guideline for Virtual Asset Service Providers (VASP)”, (January 26, 2021).

C. Current profile of VAs in the Philippines

As of 2021, there were over 300 million cryptocurrency users worldwide. Out of the 300 million, 6.9 million users are from the Philippines, making the country as one of the fastest to adopt cryptocurrencies (TripleA, n.d.). Globally, the cryptocurrency market was valued at USD826.6 million[10] (PhP39.71 billion) in 2020, and it is expected to increase to USD1,902.5 million[11] (PhP91.39 billion) in 2028 at a compound annual growth rate of 11.1% (Fortune Business Insights, n.d.).

On average, a Filipino investor today holds about 1% to 2% of personal assets in crypto assets (Shrivastava, 2022). Blockchain or cryptocurrency shared 12% of the Philippines Financial Technology (Fintech) Map 2022[12] according to Fintech News Network. (See Figure 2.)

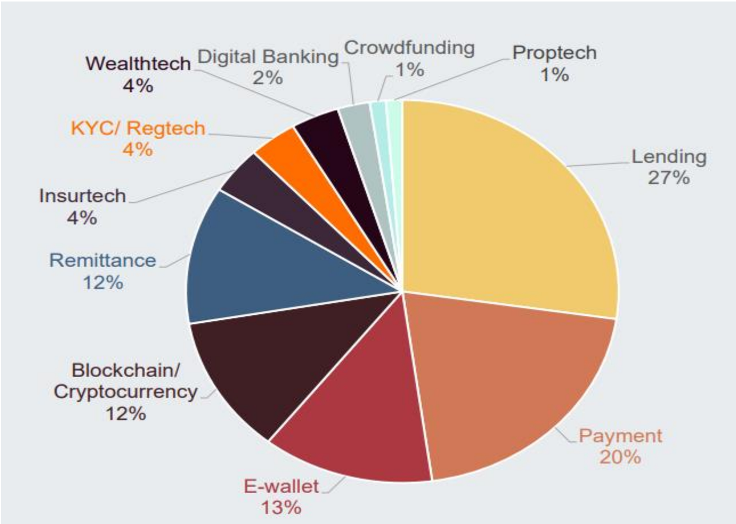

Figure 2. Philippines Fintech Map 2022. Lifted from Fintech News Network. (n.d.). Fintech News Philippines: Philippines Fintech Report 2022. https://www.jotform.com/form/213318586766366.

The volume of cryptocurrency transactions in the Philippines increased by 36% from 5.3 million in 2019 to 7.2 million in 2020, while the value increased by 410% during the same period[13]. This was due mainly to the rise of Bitcoin prices and the expansion of regulations in the financial services in the country. (See Figure 3.)

[10] 2020 Average 1 USD to PhP = 48.036

[11] Ibid.

[12] The Philippine Fintech Map 2022 provides a comprehensive snapshot of the country's rapidly growing financial technology landscape. It is an overview of the state of fintech and digital financial services in the country, and what it takes to propel it further for the betterment of the Filipinos towards greater financial inclusion.

[13] Awaiting response from the BSP for the data request on the latest value and volume of cryptocurrency in the Philippines.

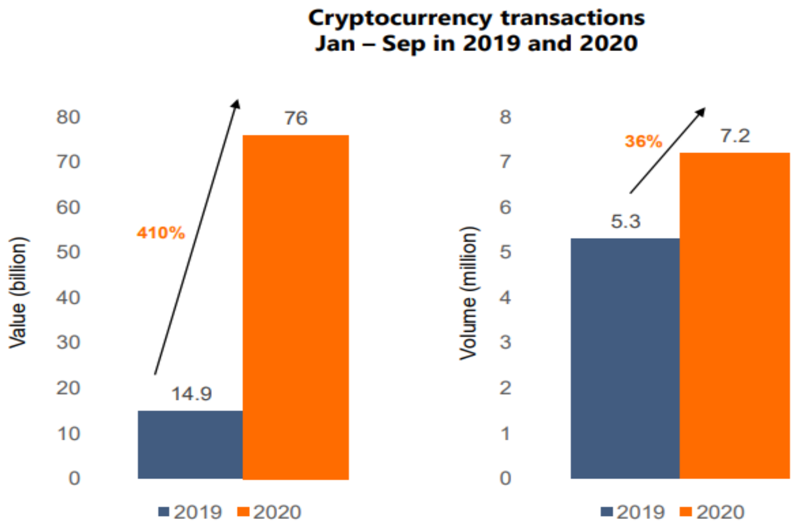

Figure 3. Cryptocurrency Transactions January to September in 2019 and 2020. Lifted from Fintech News Network. (n.d.). Fintech News Philippines: Philippines Fintech Report 2022. Retrieved June 24, 2022, from https://www.jotform.com/form/213318586766366

III. REGULATION AND TAXATION OF CRYPTOCURRENCY IN THE ASEAN REGION

Among the ten ASEAN Member States (AMS), five of them, Indonesia, Lao PDR, Malaysia, Singapore, and Thailand, impose a tax on cryptocurrency-related activities, while the Philippines, Brunei Darussalam, Cambodia, Myanmar and Vietnam have only issued a public warning on investing in cryptocurrencies. In some AMS, a cryptocurrency is not considered as legal tender in their respective jurisdictions. However, all AMS are realigning and formulating their respective fintech and e-commerce policies on regulating cryptocurrencies.

Table 2 summarizes the taxes imposed on cryptocurrencies in the ASEAN region.

Table 2

Taxes Imposed on Cryptocurrency in ASEAN Member States

AMS	Direct tax	Indirect tax
Indonesia	0.1% on earnings and capital gains on crypto transactions	0.1% value added tax (VAT) on crypto assets purchases
Lao PDR	24% profit tax on cryptocurrency excavation and mining	10% VAT on cryptocurrency excavation and mining

AMS	Direct tax	Indirect tax
Malaysia	24% income tax on e-commerce transactions included digital currencies gains from cryptocurrencies	
Singapore	17% income tax is imposed on the following: 1. Businesses that choose to accept digital tokens such as Bitcoins for their remuneration or revenue or that trade in digital tokens 2. Businesses that choose to accept digital tokens such as Bitcoins for their remuneration or revenue. It is noted that tax deductions are allowed, where permissible, under Singapore tax laws.	7% goods and services tax (GST) on the transfer of non-fungible tokens such as those that represent ownership rights to a specific property (e.g., intellectual property, digital artwork) **<u>Exempted from GST:</u>** 1. Use of digital payment tokens as payment for goods or services will no longer give rise to a supply[14] of those tokens. 2. Supply of digital payment tokens in exchange for fiat currency or
	Businesses that buy and sell digital tokens in the ordinary course of their business are taxed on the profit derived from trading in the digital token. Profits derived by businesses that mine and trade digital tokens in exchange for money are also subject to tax.	other digital payment tokens, and the provision of any loan, advance or credit of digital payments will be exempt from GST.
Thailand	15% capital gains tax on cryptocurrency trading. In addition, a 15% withholding tax is also imposed on the gains from cryptocurrency, including investors and mining operators. It is noted that digital asset exchanges are exempted from exempted	

Source: Cekindo, 2022; ECCIL, 2022; The Malaysian Reserve, 2021; Inland Revenue Authority of Singapore (IRAS), 2019 and 2020; and Bangkok Post, 2022.

[14] Where the digital payment tokens are provided as consideration in a transaction other than for a supply of money or digital payment tokens, the provision of those tokens will be treated as neither a supply of goods nor a supply of services under the GST (Excluded Transactions) Order.

IV. CONCLUSION AND RECOMMENDATION

The increasing popularity of cryptocurrency related activities, such as staking, lending, and money transfer in the Philippines has an economic domino effect on the e-commerce and fintech sector. Its usage made some transactions more accessible through mobile wallets and crypto wallets. The Philippines may establish or expand regulatory agencies in order to monitor such digital transactions. However, the digital infrastructure will require advanced technologies and specialists to handle such digital activities, especially on blockchain technologies.

In addition, as pointed out by the Organization for Economic Co-operation and Development (OECD) that in taxing VCs, the tax implications of emerging issues should be considered, such as growing interest in stablecoins and central bank digital currencies, the evolution of the consensus mechanisms used to maintain blockchain networks, and the dawn of decentralized finance. The OECD suggested for policymakers to factor in the following concerns in taxing VCs, viz.: (a) providing clear guidance and legislative frameworks for the tax treatment of crypto assets and VCs and updating these frequently; (b) supporting improved compliance, including the consideration of simplified rules; (c) aligning the tax treatment of VCs with other policy objectives or trends; and (d) designing appropriate guidance on the tax treatment of emerging technological areas.

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