

Cryptocurrency in Uzbekistan: Legal or Not?

IS IT LEGAL TO ENGAGE IN CRYPTOCURRENCY AND HOW TO CREATE A CRYPTO EXCHANGE IN UZBEKISTAN

The capital that rotates in the cryptocurrency is estimated at billions of dollars. Each country has separate legal base that make it unprofitable to invest in cryptocurrencies. Uzbekistan was not an exception. However, the country has changed its opinion in the long run. Recently several acts have been signed in order to support the development of cryptocurrency activities.

To create a framework and regulate this rapidly developing sphere, the President of Uzbekistan has signed the **Decree of the President No. 3832 "On measures for the development of the digital economy in the Republic of Uzbekistan" dated 03.07.2018.**

The Decree outlined the most important tasks:

- introduction and development of activities in the field of crypto-asset turnover, including mining (activities to maintain a distribution platform and create new blocks with the ability to receive remuneration in the format of new units and commission fees in various cryptocurrencies), smart contracts (an electronic contract, the fulfillment of rights and obligations under which is carried out by performing digital transactions automatically), consulting, issue, exchange, storage, distribution, management, insurance, crowd-funding (collective financing), as well as blockchain technologies for the diversification of various forms of investment and entrepreneurial activity;
- creation of the necessary legal framework for the introduction of blockchain technologies, taking into account the best practices of foreign countries.

Important mechanisms to facilitate cryptocurrency transactions have also been identified as:

- Transactions of legal entities and individuals related to the turnover of crypto assets, including those carried out by non-residents, are not subject to taxation, and the income received from these transactions is not included in the tax base for taxes and other mandatory payments;
- Currency transactions related to the turnover of crypto-assets conducted by persons who have received a license to carry out activities in the field of turnover of crypto assets by the established procedure are not subject to the norms of the legislation on currency regulation.

After that, the Decree **No.3832, the Decree No.3926 "On the organisation of the activities of crypto-exchanges"** dated 02.09.2018 was later signed.

The Decree defined the main directions:

- a crypto exchange is an organisation that provides an electronic platform for the exchange, purchase, and sale of crypto assets;
- a crypto asset is a set of records in the blockchain that has a value and an owner;

- the activities related to the turnover of crypto-assets and crypto exchanges are not subject to the legislation on securities and exchange activities;
- a license to operate crypto-exchanges is issued exclusively to foreign legal entities by opening subsidiaries or other enterprises on the territory of the Republic of Uzbekistan;
- for the implementation of industrial mining (the use of more than 100 kW/h), land plots are provided without an electronic auction.

The activities carried out by the crypto exchange are subject to licensing.

To obtain a license, it is necessary:

- a) to have a formed authorised fund in the amount of at least 30,000 basic calculated amount in the form of funds as of the date of application submission (about 761,000 USD), of which 12,000 (about 305,000 USD) are reserved in a separate account with a commercial bank of the Republic of Uzbekistan;
- b) the presence of a functioning electronic system of crypto-exchange trading hosted on servers located on the territory of Uzbekistan, and meets the requirements provided for in ***the Regulation on the procedure for licensing the activities of crypto-exchanges***;
- c) the existence of rules for crypto-exchange trading, which must necessarily reflect:
 - the procedure for admission to crypto-exchange trading of participants;
 - measures aimed at ensuring compliance with the requirements of the legislation on countering the legalization of proceeds from criminal activities, the financing of terrorism, and the financing of the proliferation of weapons of mass destruction;
 - procedures for admission to circulation and exclusion from the circulation of crypto assets;
 - procedure for the implementation and registration of transactions with crypto assets;
 - the procedure for mutual settlements of participants in crypto-exchange trading when concluding transactions;
 - the amount of the fee for using the services of the crypto exchange and the procedure for determining it;
 - measures to prevent price manipulation on the crypto exchange and the misuse of confidential information;
 - prohibition on the use of crypto assets for illegal purposes;
- d) the implementation of quotations for crypto assets based on the ratio of supply and demand for them;
- e) storage for 5 years of information about transactions with clients' crypto assets, as well as their identification data and materials on customer relations, including business correspondence.

Crypto-exchanges were granted the right to:

- receive remuneration for the services provided, including crypto assets, set its amount and the procedure for charging trading participants (clients);

- organise exchange transactions with residents and non-residents of the Republic of Uzbekistan aimed at the acquisition and (or) alienation of crypto assets for national and foreign currency, as well as the exchange of crypto assets for other crypto assets.

The turnover of crypto assets and tokens was regulated with the adoption of **Order No.16 of the Director of the National Agency for Project Management dated 21.01.2019, No. 3127**, which approved the Regulation on the procedure for licensing the activities of crypto exchanges and the rules for conducting crypto-exchange trading.

The rules for the implementation of crypto-exchange trading gave definitions to the main concepts used in crypto-exchange trading:

blockchain is a distributed data registry in which all data is written sequentially and distributed in blocks, while each new block is connected to the previous block by a cryptographic signature;

a crypto asset is a set of records in the blockchain that has a value and an owner;

a crypto exchange is an organization that provides an electronic platform for the exchange, purchase, and sale of crypto assets and tokens;

a token is a unit of accounting designed to represent a digital balance sheet, performing the function of a “substitute for securities” in the digital world, representing an entry in the register distributed in the blockchain. The token is issued by a legal entity or an individual entrepreneur (issuer) to attract investment and financing to the activity;

a stablecoin is a crypto asset whose value is tied to the asset of a legal entity.

Under the Rules of crypto-exchange trading, residents of Uzbekistan cannot buy digital currency. They are only allowed to sell crypto assets and tokens. This restriction does not apply to citizens of other countries. They have the right to buy and sell crypto assets, subject to their mandatory identification and the conclusion of official contracts with them.

Any anonymous transactions with cryptocurrency are prohibited in Uzbekistan. Also, crypto-assets cannot be used as a means of payment on the territory of Uzbekistan. The authorised body regulating transactions with cryptocurrency is the *National Agency for Project Management under the President of Uzbekistan (NAPU)*.

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