



Publisher homepage: www.universepg.com, ISSN: 2707-4668 (Online) & 2707-465X (Print)

<https://doi.org/10.34104/ajssls.024.047052>

Asian Journal of Social Sciences and Legal Studies

Journal homepage: www.universepg.com/journal/ajssls

Asian Journal of
**Social Sciences
and Legal Studies**



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The Possible Introduction of Digital Currency Exchange in Bangladesh: A Legal Analysis

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ABSTRACT

Digital currency is the most interesting and demanding currency medium over the world. Digital currency means crypto currency and which means Bitcoin, NFT Ethereum, etc. Day by day those digital currencies are increasing in the crypto market. In Bangladesh this currency medium is not approved yet. But this digital currency can change the whole view of Bangladesh's perspective if it's approved by the government. This digital currency can play an influential role in e-commerce and business and can change massively for the economy's growth. The acceptance of digital currency in Bangladesh is now a matter because this is an important issue in this globalized world. All the western countries approve of the digital currency dealing system which is binding by their law and they trust in their highly configured block chain security for this. The Russia-Ukraine war makes it more important to approve it because many economic issues and crises over the world arise. We know digital currency has no central control in terms of security. That is why the regulatory framework is very much necessary before approval. There is a large scope for digital currency in Bangladesh for use in different fields. Especially in e-commerce business or any kind of trading in the international market this digital currency can be the best transaction system. Right now, in Bangladesh, there is no specific law for digital currency exchange. But it should be approved to improve the economy in this globalized world. This paper tries to find out why this digital currency approval is important for Bangladesh and how it's security can be ensured through law.

Keywords: Digital Currency, Regulatory framework, Ethereum, Security, Bitcoin, Bangladesh, and Globalization.

INTRODUCTION:

A relatively new form of money, digital currency functions entirely differently from the conventional currencies we use in our daily life. Additionally, this digital currency refers to cryptocurrencies. Primarily these cryptocurrencies are only available as a digital form of payment and also as a trade stock. As a result, one cannot carry actual cryptocurrency coins or bills with him (Altan *et al*, 2019). This total system builds up on a blockchain and wallet mechanism. The

number of cryptocurrency wallets growing day by day and every day this market introduces new coins. In 2009, the first decentralized cryptocurrency Bitcoin entered the market (Dwyer, 2015). In 2023, there are approximately 22,932 cryptocurrencies around the world, which is a total \$1.1 trillion market capitalization. Countries including the US, the UK, and much more support this exchange of cryptocurrencies with legal entitlement and they also allow to do trade on crypto (Ghosh *et al*, 2020). Because of security issues

and a lack of knowledge, Bangladesh has not allowed cryptocurrencies legal. But there is a huge market for this and people are also interested to invest in cryptocurrencies. But here in this globalized world, Bangladesh has to go with the flow of others. For that reason, Central Bank Digital Currency (CBDC) can be a good step for introducing digital currency exchange in Bangladesh.

In 1990, Finland introduced a new form of e-money card to their citizen and later on this is called the concept of CBDC. This CBDC concept is famous over the world. Even The Bank for International Settlements (BIS) published a report in December 2002, where they demand that it can be used for wholesale and retail at a time. In April 2021 they said that at least 80 central banks over the world looking at this CBDC concept.

Crypto currency working policy

Cryptocurrency is based on blockchain technology. This blockchain is a distributor of digital ledgers that have stores of records of transactions (Gross *et al*, 2017). It's decentralized, which means this is not controlled by any central entity. Instead, it is maintained by a network of computers that are repeatedly updating the records. When a transaction is made, then it's made as a block. The block is cryptographically secured and added to the chain. These transactions are

verified by the network of computers and ensure that they are valid (Kanda *et al*, 2018). These transactions can't be deleted when it's done and ensure that the data on the blockchain is secure and trustworthy (Su *et al*, 2020).

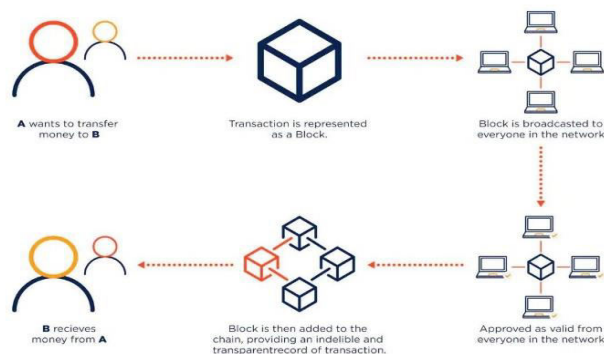


Fig. 1: Crypto currency working policy (Source: libertext.com).

Working policy of central bank digital currency (CBDC)

CBDC means “Central Bank Digital Currency”. This digital currency can be controlled by the central bank. Here central bank can trace anyone’s account and this is out of danger of money laundering (Saito & Iwamura, 2019; Ahmed M, and Iqbal MA. 2020). A differentiation can make easy about the working policy of CBDC with the general banking policy.

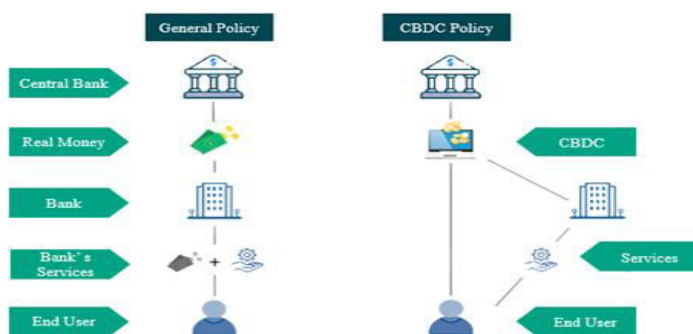


Fig. 2: General Bank Policy vs. CBDC Policy (Source: What is a Central Bank Digital Currency and why should people prefer CBDC over bank accounts - blog.digitalasset.com).

CBDC with the general banking policy

Recently in June 2023 Bangladesh Bank also offer a system called digital bank. They give a guideline for the establishment of digital banks as and all of those UniversePG | www.universepg.com

are counted as private banks. Bangladesh Bank plans to do this because they want to adopt Fintech and digital solutions to achieve their Sustainable Development Goals (SDGs) target. Those digital banks also

need to follow Bangladesh Payment and Settlement Systems Regulation, 2014 and they need a license from Bangladesh Bank under section 31 of the Bank Company Act (BCA), 1991. Where all digital banks are obliged by Bangladesh Bank. This is not like the CBDC system, but here Bangladesh tries to involve their people with digital currency because there's a good possibility of this.

Pros and cons of digital currency

Pros

There are some potential benefits of digital currency exchange. Which are,

- Easy to manage - Digital currencies are easy to manage for use and save. There is no extra hassle for this. If anyone has a digital device, he can easily manage his digital currency.
- Speed and efficiency - Digital currency transaction is much faster than traditional bank transfer. Anyone can transfer his money anywhere at any time (Truby, 2018).
- Security - Digital currency exchange uses advanced security, such as encryption and secure storage to protect users.
- Transparency - All the transactions are recorded on a transparent ledger, which allows for greater visibility and accountability in the financial system (Sapovadia, 2018).
- Lower transfer fees - Digital currency transfer fees are lower than traditional transfer and anyone can use it from anywhere if he has an internet connection and device.

Cons

As with any financial technology, there are also some drawbacks to using digital currency exchange. Which are,

- Lack of regulation- As with any other traditional currency digital currency have no specific regulation yet. This can make it risky for users to hold large amounts of currency in their wallets.
- Security risk - Digital currency exchanges are subject to hacking, security breaches, and cyber-crime. While this is not a big number of possibilities, but there are still risks as it is digital.
- Limited acceptance - Digital currencies are not yet widely accepted as a payment system. This makes users' experience difficult.

- Complexity - All technology can be complex if people are not tech educated and if they do not understand the use of it. This is challenging to make people used to it.

Status of digital currency across the world

The digital currency has a significant impact nowadays. Even in times of war countries are using ledger via digital currency, like the Russia-Ukrainian war. Where both of them buy their war troops by using cryptocurrency and also buy goods for daily use. In September 2021, Ukraine came in 4th place and they even formally legalized this. When the US give sanctions on Rubel, Russia takes digital currency for their transactions. Many companies also accept the digital currency. Some countries like Japan, Switzerland, Dubai, the USA, the UK, Canada, and India legalized digital currency. Here people also can invest in cryptocurrency. Countries over the world made various legal protection for the user of digital currency like bitcoin.

Legal protection of digital currency in Bangladesh

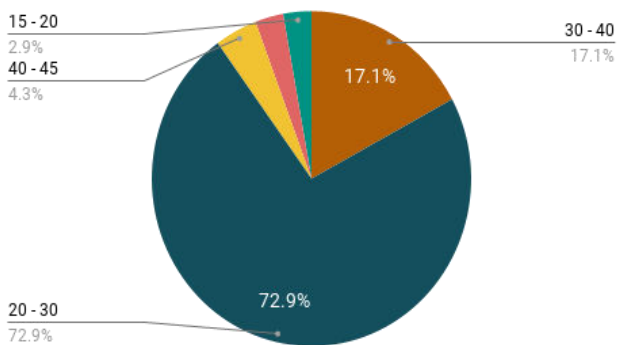
Bangladesh has not approved digital currency exchange legally yet, but there are many possibilities for this (Begum, 2021). Recently, they just give guide-lines to build-up a privet digital bank under the central bank of the country. The Bangladesh central bank said that the Foreign Exchange Regulation Act of 1947 does not identify any digital currency. Even Bangladesh Bank said that anyone found guilty of dealing with Bitcoin or any other cryptocurrency could be jailed for up to 12 years under current anti-money laundering laws. But cryptocurrency is booming nowadays. From 2020 to 2023 only Bitcoin grow 112.85% according to the popular trading site Binance. Bangladesh should take steps for digital currency and cryptocurrency. Moving towards Central Bank Digital Currency (CBDC) is the best option so far. The Bangladeshi government can make this taxable, and the government can make its own blockchain system. Via this blockchain system, the government can control the transaction of digital currency exchange. For the time being, the government can use the Cyber Security Act of 2023 for the legal protection of digital currency exchange.

- Section 30 of the digital security act said that, without legal authority, makes e-transactions over electronic and digital means from any bank,

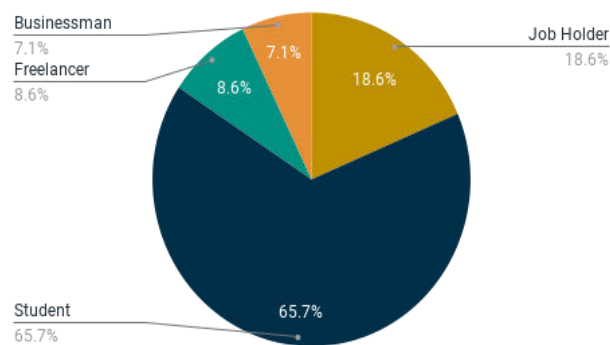
insurance, or any other financial institution, or any organization providing mobile money service declared illegal by the government or Bangladesh Bank, then such act of the person shall be an offence. If any person does that, he will face an imprisonment term not exceeding 5 years or a fine not exceeding 5 lacks or both. And if anyone does that from time to time then he will face an imprisonment term not exceeding 7 years or a fine not exceeding 10 lakh or both.

Field survey

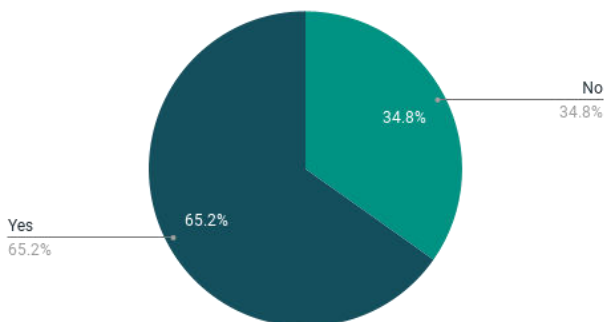
Here is a survey report about what Bangladeshi stakeholder’s thought regarding digital currency or crypto and how they reacted, based on age, occupation, and different fields who have implications of crypto currency. This survey was conducted among 70 stockholders from various fields. In this survey, some questions were asked to the people, and they responded via a Google form.



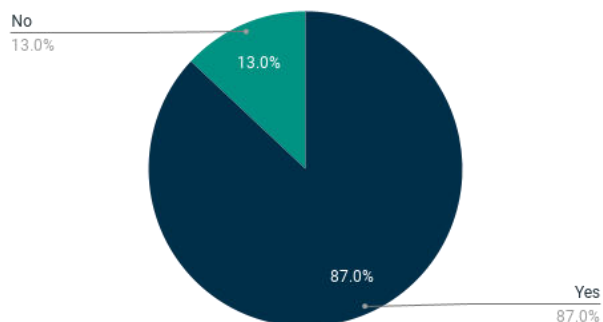
Pie – 01 (Age)



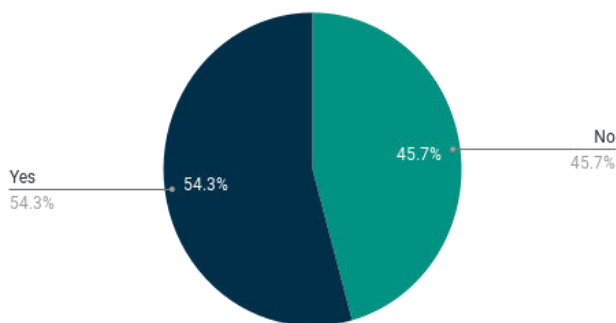
Pie – 02 (Occupation)



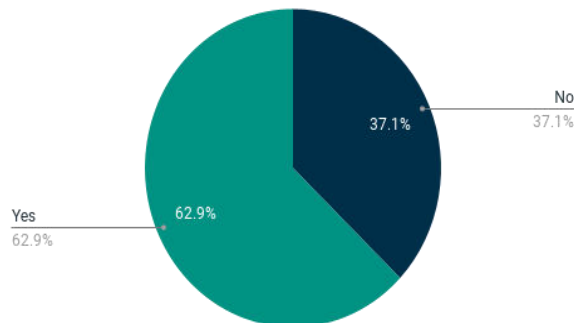
Pie – 03 (Member of the trading community or interested to be?)



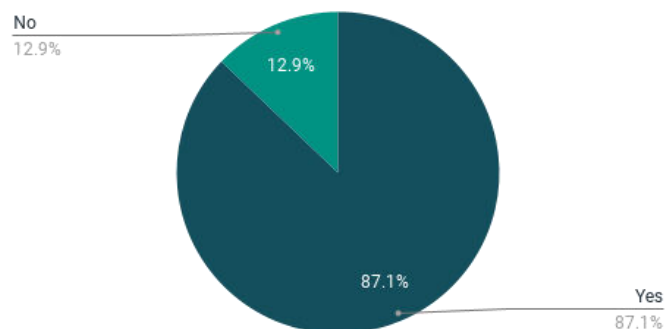
Pie – 04 (Do you support the approval of digital currency in Bangladesh?)



Pie – 05 (Will you allow Bangladesh Bank to know your balance and transaction?)



Pie – 06 (Interested to pay tax on the digital currency?)



Pie – 07 (Do you think digital currency plays an important role in this global community?).

Pie - 01 (Age) - Here it shows the stakeholder’s age who participated in the survey. Here 2.9% are between 15-20 years, 72.9% are between 20-30 years, 17.1% are between 20-40 years, 4.3% are between 40-45 and 2.9% are between 45+ years old among 70 people.

Pie - 02 (Occupation) - It shows the stakeholder’s occupation who participated in the survey. Here 7.1% are businessmen in various filed, 18.6% are job holders in various filed, 8.6% are freelancers and 65.7% are students among 70 people.

Pie - 03 (Member of the trading community or interested to be) - It shows the stakeholders who participated in the survey are interested or not in the trade of cryptocurrency via Binance or various websites. A total of 65.2% of people are interested in this kind of trade and 34.8% are not interested among 70 stakeholders. Even many of them already do a trade like this.

Pie - 04 (Do you support the approval of digital currency in Bangladesh?) - It shows that the stakeholders who have supported the digital currency and who is not. A total of 87% want to test and support the approval of digital currency and 13% don’t want the approval.

Pie - 05 (Will you allow Bangladesh Bank to know your balance and transaction?) - Here it shows that 54.3% of stakeholders have consented that the central bank can access their information where they can know about the balance and transaction and 45.7% won’t allow that.

Pie - 06 (Interested to pay tax on the digital currency) - Here among 70 people 65.2% of stakeholders are ready to pay tax on digital currency and 37.1% don’t want to pay tax on this.

Pie - 07 (Do you think digital currency plays an important role in this global community?) - Here it

shows the stakeholders who participated in the survey and where 87.1% think that approval of digital currency will take a good role in the transaction and play important role in this global community with the 1st world country and 12.9% think it will not happen. According to the survey results, it can be said that majority stakeholders in Bangladesh are already interested in digital currency, and many are already using it through various third-party websites.

CONCLUSION AND RECOMMENDATIONS:

Currently, 122 countries around the world are on the route to adopting digital currency policies. Digital currency will save money and transactions will be more efficient. A task force consisting of banking experts and technical experts can be formed to introduce digital currency in the country. The trust is at the core of financial transactions. Just as it is written on paper money that 'must be obliged to pay the bearer on demand', similarly even if the transaction is done digitally, the customer's trust must be gained. As the study finds interests of the concerned stakeholders in digital currency, it can be introduced by strengthening the present legal framework. Based on the findings of this paper the following suggestions can be made.

- Bangladesh should enact laws for digital currency exchange.
- The government can amend and insert provisions for digital currency exchange in the Cyber Security Act, 2023.
- The government and Bangladesh Bank should take a pilot project for digital currency exchange where they will introduce a test project of digital currency exchange and teach the people of the state about digital currency.

- Initially, the government should introduce CB-DC to the market, for which provisions can be put in the Payment and Settlement Systems Act of 2021.
- The government can amend the Foreign Exchange Regulation Act of 1947 and introduce digital currency here.

ACKNOWLEDGEMENT:

The authors would like to express gratitude to the International Conference on Innovation and Transformation for Development (2022) organized by Green University of Bangladesh where paper was presented.

CONFLICTS OF INTEREST:

The authors declared no potential conflicts of the interest with respect to the research work.

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Citation: Jobayer A., and Arifuzzaman M. (2024). The possible introduction of digital currency exchange in Bangladesh: a legal analysis, *Asian J. Soc. Sci. Leg. Stud.*, 6(2), 47-52.

<https://doi.org/10.34104/ajssls.024.047052> 