

**LEGAL REGULATION OF THE VIRTUAL ASSETS' CIRCULATION IN
UKRAINE: IMPLEMENTATION CHALLENGES
AND DEVELOPMENT PROSPECTS**

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Abstract: The article analyzes the current state of regulatory regulation of the virtual assets market in Ukraine, identifies key challenges that the state has faced in the process of implementing the Law of Ukraine «On Virtual Assets». The international experience of regulation is studied, in particular in the context of European Union acts (Markets in Crypto-Assets Regulation), and the prospects for the development of the legal framework are outlined, taking into account the requirements of financial security, investor protection and the innovative economy' development. The author's recommendations for improving the regulation of the virtual assets' circulation in Ukraine are presented.

Key words: virtual assets, cryptocurrencies, financial law, Markets in Crypto-Assets (MiCA), digital assets, legal regulation, blockchain.

The global financial market is undergoing fundamental changes under the influence of the digital technologies' rapid development, among which virtual assets occupy a special place. The market of cryptocurrencies, NFTs, stablecoins, etc. creates new opportunities for business, investors and the state, while at the same time generating a number of legal, ethical and security challenges.

In Ukraine, the digitalization of financial sector has become especially relevant in the context of wartime, when the need for transparent, secure and decentralized

instruments for the circulation of funds is growing. At the same time, despite the adoption of the Law of Ukraine «On Virtual Assets» in 2021, its implementation remains partially blocked due to the lack of a secondary legislation, regulatory bodies and agreed fiscal rules.

The purpose of the article is a comprehensive analysis of the current and prospective legal regulation of the virtual assets' circulation in Ukraine, identifying the main problems of implementing legislation and forming strategic directions for its improvement.

Virtual assets' regulation is a complex and dynamic process that requires clear theoretical and legal foundations. The effective regulation' basis is the determination of the principles, legal nature and mechanisms of state and international influence on the virtual assets' circulation.

It should be noted that the current nation legislation doesn't define the concept of state regulation' principles of the virtual assets' circulation. In [1, p. 677], the state regulation' principles of the virtual assets' circulation are considered as: «norms-ideas, initial provisions, enshrined, including in regulatory legal acts, which determine the content and direction of state regulation of the virtual assets' circulation and according to which there is a targeted influence on the relationships' system between all participants in the virtual assets market to maintain their balance.» Principles are multidimensional in nature: an idea, a provision, a requirement, which differ in terminology, but together form a complex category of legal principles [1, p. 676].

The virtual assets' concept is key to the modern digital economy, but there is no single generally accepted definition of virtual assets, and approaches to their classification and regulation remain different at the national and international levels. Thus, the Law of Ukraine «On Virtual Assets» defines a virtual asset as: «an intangible good that is an object of civil rights, has value and is expressed in the form of a data's set in electronic form» [2]. Its existence and liquidity are ensured by the system of virtual assets' circulation [3, 4].

Virtual assets encompass not only cryptocurrencies, but also other digital

objects that have economic value and can be used without intermediaries in decentralized networks [4, 5]. In Ukrainian legislation, the harmonizing process the concepts of «virtual assets», «cryptocurrencies», «digital assets» and «cryptoassets» is ongoing, which are often used as synonyms, but have different characteristics [6, 7].

At the international level, the concept of «virtual asset» is often correlated with «cryptoasset» as defined by FATF and European legislation. Different countries (UK, USA, EU) have their own approaches to defining and regulating virtual assets, which take into account their functionality, technological basis and economic value (table 1). The lack of a unified approach leads to different interpretations: from identification with virtual currency to consideration as information or data, as well as to different models of legal regulation [8].

Table 1

Comparative table of approaches to defining the virtual assets' concept

Subject/ Jurisdiction	Basic definition/approach	Regulation' features
1	2	3
Ukraine	Virtual asset is an intangible good that is an object of civil rights, has value and is expressed in the form of a data's set in electronic form	Law of Ukraine «On Virtual Assets»
FATF	Virtual asset (crypto asset) – a digital representation of value that can be traded or transferred digitally and can be used for payments or investments. Virtual assets do not include digital representations of fiat currencies, securities, and other financial assets [9]	Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, FATF
The European Union	Crypto-assets are digital representations of value or of rights that have the potential to bring significant benefits to market participants, including retail holders of crypto-assets. Representations of value include external, non-intrinsic value attributed to a crypto-asset by the parties concerned or by market participants, meaning the value is subjective and based only on the interest of the purchaser of the crypto-asset [10]	Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets
The United Kingdom	Cryptoassets are cryptographically secured digital representations of value or contractual rights that use some type of distributed ledger technology (DLT) and can be transferred, stored or traded electronically [11]	Financial Conduct Authority

Source: developed by authors

It should be noted that international framework and regulatory documents do not contain a definition of digital assets, despite the fact that they form the basis of the hierarchical classification and are also found in paragraphs 13 and 17 of

Regulation (EU) 2023/1114 [10].

Based on the results of a comparative analysis of approaches to defining virtual assets, we can conclude that all definitions describe virtual assets as intangible, digital, exchangeable objects that have value, however, the Ukrainian definition focuses on legal status (object of civil rights), the European one on economic nature (subjective market value), and the British one on technological features (based on DLT and cryptography). Ukraine is guided by international standards, but needs further unification of terminology and legislation to effectively regulate the digital economy.

The main document defining the legal status of virtual assets in Ukraine is the Law of Ukraine «On Virtual Assets», adopted in September 2021. The law: defines the concept of virtual assets, but does not include CBDCs (central bank digital currencies) and tokenized assets; establishes the rules for their circulation, not their issuance (emission), which creates a legal vacuum for ICOs/STOs (initial coin/token offerings); delimits the functions of regulators (the National Securities and Stock Market Commission and the National Bank of Ukraine); requires licensing for virtual asset service providers (VASPs), but does not detail the licensing mechanisms [2].

In addition, the final and transitional provisions of the Law stipulated that it would enter into force on the date of entry into force of the Law of Ukraine on Amendments to the Tax Code of Ukraine regarding the specifics of transactions' taxation with virtual assets. However, the amendments to the Tax Code were never made and the issues of virtual assets' taxation remain unregulated, including the taxation of mining, staking, and DeFi transactions [12].

Ukraine's acquisition of the candidate's status for membership in the European Union necessitates the need to bring national legislation into line with European standards, the key of which in matters of virtual assets' circulation is Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31.05.2023 on markets in crypto-assets (Markets in Crypto-Assets Regulation or MiSA Regulation), which clearly defines the main terminological concepts related to the virtual assets market, classifies virtual assets and services related to virtual assets provided by professional

providers of such services, establishes a clear division of powers between competent authorities regarding the regulation of the virtual assets market, and also regulates the combating abuses' issue in this market by introducing requirements for the public offering of certain types of virtual assets and their admission to trading [10].

Ukraine declares its intention to harmonize its legislation with the EU MiCA Regulation, which provides for:

- registration of crypto-asset issuers;
- consumer rights' protection;
- combating manipulation on the crypto market.

The current legislative regulation of the virtual assets' circulation in Ukraine is characterized by a string of problems. Thus, in the works [5, 6, 13], researchers focus on the problems of the lack of a single legal definition and terminological and conceptual differences. Currently, in Ukraine there is no established approach to defining the concept and legal nature of virtual assets, which complicates their legal regulation and judicial practice, and there is also no single approach to the classification and definition of virtual assets in legislation and scientific literature.

Scientists [14, 15, 16] consider the problems of incomplete implementation of laws and taxation. The Law «On Virtual Assets» was adopted, but it did not enter into force due to the lack of amendments to the Tax Code and, accordingly, the launch of the market is being slowed down. Today, there are no clear rules for accounting and taxation of transactions with virtual assets, which creates legal uncertainty for businesses and investors.

Among the key challenges of implementation and international harmonization facing Ukraine are:

1. *Lagging behind international standards.* Ukraine has only partially implemented the FATF recommendations and the EU directives on AML/CFT, which creates risks for integration into the global financial system [15, 17].

2. *Licensing issues.* The legislation provides for a licensing system for service providers, but the procedure for obtaining a license is not transparent and clearly defined [18].

3. *Threats to financial stability and security.* Insufficient control over the circulation of virtual assets increases the risks of fraud, money laundering, and cybercrime [17, 19].

Sustainable development of the virtual assets market in Ukraine can be ensured by implementing a set of measures presented in Table 2.

Table 2

**Measures to ensure sustainable development
of the virtual assets market in Ukraine**

General measure	Detailed measures
1	2
<i>Full implementation of the Law «On Virtual Assets»</i>	- creation of service providers' registry related to virtual assets
	- launch of the electronic licensing platform
	- appointment of a responsible regulator (the National Securities and Stock Market Commission or a new institution) for sustainable development
<i>Amendments to the Tax Code of Ukraine</i>	- definition of rules for taxation of income from the virtual assets' circulation
	- introduction of a reporting mechanism for individuals and legal entities
<i>Ensuring the protection of user rights</i>	- creating a mechanism for resolving disputes in the field of digital assets
	- providing compensation funds or insurance for investors
<i>Supporting educational initiatives</i>	- introducing financial literacy in the context of virtual assets into school and university curricula
	- conducting government and business forums to discuss the risks/opportunities of the crypto market
<i>Supporting the launch of a digital hryvnia (eUAH)</i>	A central bank digital currency can become both an alternative to cryptocurrencies and a tool for controlling the circulation of digital funds

Source: developed by authors

The legal regulation of virtual assets' circulation in Ukraine is at a pivotal point of development, reflecting the broader transformation of financial systems under the influence of digitalization and decentralization. The conducted study demonstrates that, despite the adoption of the Law of Ukraine "On Virtual Assets" in 2021, Ukraine still lacks the comprehensive and functional regulatory infrastructure required for the effective integration of virtual assets into the national financial architecture.

A comparative analysis with international approaches – particularly the FATF guidelines, EU MiCA Regulation, and frameworks of the United Kingdom – confirms that Ukraine's legal definition of virtual assets is currently focused on their civil-legal status, while other jurisdictions emphasize economic value, technological foundations, or systemic financial security. These differences illustrate the conceptual fragmentation at the global level, but also highlight the need for domestic legislative

convergence with recognized international standards.

The challenges identified in the article – uncertainty in terminology, absence of licensing procedures, delayed tax legislation, and insufficient institutional coordination – create significant barriers for businesses, service providers, and regulatory authorities. The risk of underregulation increases exposure to financial crimes, while overregulation may suppress innovation. Therefore, a balance must be found between market liberalization and risk containment, especially considering Ukraine's aspirations for EU integration. The implementation of the Law "On Virtual Assets" must be accompanied by coordinated legislative, institutional, and educational reforms. In particular, a clearly defined regulatory authority, a transparent licensing and reporting system, tax clarity, and investor protection mechanisms (such as dispute resolution and compensation funds) are critical. Moreover, integration of financial literacy about digital assets into formal education and public communication strategies will facilitate safer market participation.

Finally, Ukraine should view the development of its virtual asset market not only as a legal or technological challenge, but as a strategic opportunity to position itself as a regional leader in digital finance. By harmonizing national regulation with the MiCA framework and embedding international AML/CFT standards, Ukraine can attract investment, stimulate fintech innovation, and enhance transparency and resilience in its post-war economic recovery.

In summary, the sustainable development of the virtual assets ecosystem in Ukraine depends on the political will, regulatory foresight, and institutional readiness to shift from declarative legislation to effective and enforceable governance of the digital economy.

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