

The future of cryptocurrency legality in Indonesia

Dasih Irma, Sari Maemunah, Saefudin Zuhri, Nendi Juhandi

Kusuma Negara Business School

*Email: irma@stie-kusumanegara.ac.id

Received: 02 May 2021

Accepted: 05 June 2021

DOI: <https://doi.org/10.32479/ijefi.11347>

ABSTRACT

Cryptocurrency is a form of payment for goods and services that can be made online. Many companies have issued their own currency, often called tokens, and traded specifically for the goods or services their company provides. Currently, blockchain technology can be implemented in various elements, including, financial services, smart property, IoT, smart contracts, blockchain government, blockchain identity. In Indonesia, cryptocurrencies are interpreted as crypto assets that can only be traded on futures exchanges. There are 229 cryptocurrencies recognized in Indonesia. The legality of using Cryptocurrencies in Indonesia can only be traded on futures exchanges, as stated in the regulation of the Commodity Futures Trading Supervisory Agency (BAPPEBTI) number 5 of 2019 and the Commodity Futures Trading Supervisory Agency Regulation Number 7 concerning the Establishment of a List of Crypto Assets that can be Traded in the Physical Crypto Asset Market

Keywords: Cryptocurrency, Bank Indonesia, Legality, Indonesia

1. INTRODUCTION

Currently, we have entered the industrial era 4.0 where there is a merger of automation technology, cyber technology and data exchange. Where these things include cyber-physical systems, internet of things (IoT), cognitive computing, and cloud computing. Automation and digitization can eliminate or streamline some jobs. One of the technologies that are developing in this era is blockchain technology. Blockchain technology is a list of digital records in the form of packages or blocks developed using the science of cryptography. Blockchain technology allows the recording of digital traces stored in a linear chain. Where each block contains data, a cryptographic hash, and a timestamp. The hash data block refers to the previous block, this is to ensure the data in the blockchain is not changed or tampered with.

Currently, blockchain technology can be implemented in various elements, including, financial services, smart property, IoT, smart contracts, blockchain government, blockchain identity. In financial services, there has been a technological transformation

in the transaction system, namely the use of electronic money and virtual money. Electronic money is a medium of exchange that is managed by financial institutions so that it uses a centralized system, while virtual money uses a decentralized system. The decentralized system of virtual money allows the use of blockchain technology for increased capacity, better security and faster settlement.

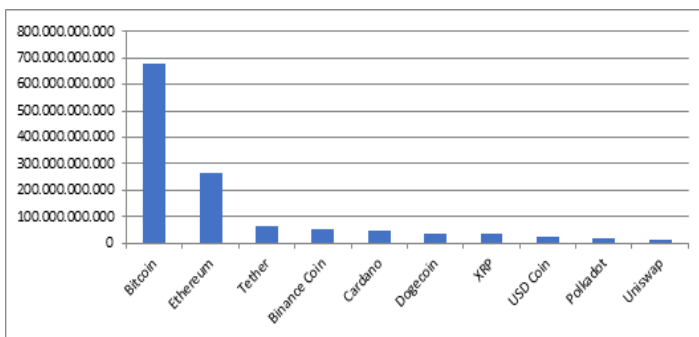
This virtual money is developed with cryptocurrency which allows users to transact or exchange value digitally without any third party supervision. Cryptocurrency can be used as a means of payment, investment, storage of value, transfer of funds and diversification of investments. This proves that cryptocurrency is a versatile digital or virtual currency that can provide convenience, security, and low costs. Some of the world's online companies have taken advantage of cryptocurrencies, including PlayGame, published by Google in Singapore, which is multi-currency in its payments, fast food company KFC in Canada and so on. So, can cryptocurrency be implemented in Indonesia as a financial payment?

2. CRYPTOCURRENCY

Cryptocurrency is a form of payment for goods and services that can be made online. Many companies have issued their own currency, often called tokens, and traded specifically for the goods or services their company provides. The simple analogy is that they are like you would with Timezone tokens and Arcade games that use tokens or special coins from Timezone. You have to exchange real currency (Rupiah) for Token (cryptocurrency) to start playing the game. Cryptocurrencies work using a technology called blockchain. Blockchain is a decentralized technology spread across multiple computers that manage and record transactions. Part of the appeal of this technology is its security.

3. TRADED CRYPTOCURRENCY

Over 10,000 different cryptocurrencies are publicly traded and cryptocurrencies are constantly evolving, raising money through Initial Coin Offerings (ICOs). The total value of all cryptocurrencies as of June 2021, is more than \$1.7 trillion – down from April's high of \$2.2 trillion. The total value of all bitcoin, the most popular digital currency, is pegged at around \$735 billion — down from April's high of \$1.2 trillion. The 10 best cryptocurrencies based on market capitalization (largest trades), are as follows:



4. POPULARITY OF CRYPTOCURRENCY

Cryptocurrencies are becoming popular for many reasons

- Cryptocurrencies like Bitcoin are the currency of the future and are racing to buy them now, perhaps before they become more valuable.
- The fact that cryptocurrencies eliminate central banks from managing the money supply, because over time these banks tend to reduce the value of money through
- The technology behind cryptocurrency, blockchain, because it is a system that performs processing and recording is decentralized and can be more secure than traditional payment systems.
- Speculators like cryptocurrencies because their value increases and is not affected by long-term acceptance of currency as a way to move money.

5. CRYPTOCURRENCY POSITION AS INVESTMENT

Cryptocurrencies may go up in value, but many investors see them as mere speculation, not real investments. The reason? Just like real currencies, cryptocurrencies do not generate cash flow, so in order to make a profit, one has to pay more for the currency than everyone else is paying. People pay for the scarcity value. Compare that to a well-run business, which increases its value over time by increasing profitability and operating cash flow. Many speculate and see cryptocurrencies like Bitcoin as the currency of the future, but the truth is that currencies need stability so that merchants and consumers can determine what a fair price for goods is. Bitcoin and other cryptocurrencies have been completely unstable throughout their history. For example, while Bitcoin was trading near \$20,000 in December 2017, its value then dropped to around \$3,200 a year later. In December 2020, it was trading at record levels again. This price volatility creates a lot of speculation. If bitcoin may be worth more in the future, people are less likely to spend it and circulate it today, making it less viable as a currency. People will tend to save it and spend it next year when the price goes up even more.

First, the risk of payment systems and rupiah money management if cryptocurrencies or crypto assets are used as a means of payment in Indonesia. Second, the risk of capital outflows that could affect Bank Indonesia's monetary policy with the increase in cryptocurrency transactions in Indonesia. Third, the risk of financial system stability in terms of crypto asset transactions is getting bigger and more complex and involves banks due to the rise of cryptocurrencies. Fourth, the surge in cryptocurrency transactions in Indonesia also poses the risk of violating the principles of Anti-Money Laundering and Prevention of the Financing of Terrorism (APU-PPT). Fifth, BI also highlighted the risk of breaching consumer protection and personal data protection is also very large with the rise of this cryptocurrency. Therefore, BI hopes that there needs to be strict regulation and supervision from the Commodity Futures Trading Regulatory Agency (CoFTRA) regarding the trading of crypto assets and cryptocurrencies.

6. CRYPTOCURRENCY LEGALITY IN INDONESIA

Several countries in the world have responded in the regulation of cryptocurrency. Based on a survey conducted by the Law Library of Congress in 2018, countries that have quite complete regulations in handling anti-money laundering/counter financing terrorism (AML/CFT) and taxes, as well as part of the G20 and FATF members are Japan, Canada and Australia. All three countries interpret cryptocurrencies as commodities, except for Japan, which interprets cryptocurrencies as property values (Law Library of Congress, 2018).

In Indonesia, cryptocurrencies are interpreted as crypto assets that can only be traded on futures exchanges, as stated in the regulation of the Commodity Futures Trading Regulatory Agency (BAPPEBTI) number 5 of 2019. There are 229 cryptocurrencies recognized in Indonesia. This acknowledgment is stated in the Commodity Futures Trading Supervisory Agency Regulation Number 7 concerning Stipulation of the List of Crypto Assets that can be Traded in the Physical Crypto Asset

Market. This regulation came into effect on December 17, 2020.

With the issuance of the CoFTRA regulation (Perba), it is hoped that physical trading of crypto assets in Indonesia will be able to provide legal certainty as well as protection for people who transact physical crypto assets in Indonesia. The determination of this type of cryptocurrency asset is based on two approaches. First, a juridical approach (looking at the 500 coin market cap/CMC rating) in accordance with the provisions of Article 3 paragraph (2) letter c of Perba Number 5 of 2019. Second, the CoFTRA process hierarchy analysis (AHP) assessment approach while still paying attention to security aspects, team profile and members of the developing team, governance of the blockchain system, scalability of the blockchain system, a roadmap that describes the development plan of a blockchain system that can be verified for achievement, and a standard score of 6.5.

Bank Indonesia (BI) stated that in the next ten years the central bank does not plan to grant permission to use crypto assets, aka cryptoassets are used as a means of payment or digital currency which is often called cryptocurrency. Because, BI assesses that there are still many considerations that must be made so that cryptocurrencies do not have a negative impact on the Indonesian economy and society. "In our view at BI, now and for the next 10 years, cryptocurrencies outside the central bank will not be allowed to become legal tender in Indonesia," he said. According to Rosalia, to make cryptocurrency as a means of payment, issuers must take into account the supply and demand for goods and services in one country. Until now cryptocurrency is not recognized as a legal tender, and should not be used as a means of payment because it is contrary to Law No. 7 of 2011 concerning Currencies.

The Currency Law states that Rupiah is the only legal currency in the Unitary State of the Republic of Indonesia (NKRI) and every transaction that has a payment purpose is carried out within the territory of the Republic of Indonesia. That's why cryptocurrencies cannot meet the requirements set out in this law. "The only legal means of payment is rupiah," he said in a discussion entitled Crypto Law & Regulations in Indonesia. For this reason, BI asserts that until now it has prohibited all payment system operators, payment infrastructure providers and financial technology providers in Indonesia, both banks and non-bank institutions, from processing payment transactions with virtual currency, or cryptocurrencies.

Bank Indonesia prohibition on using cryptocurrencies is as regulated in Bank Indonesia Regulation (PBI) Number 18/40/PBI/2016 concerning the Implementation of Payment Transaction Processing. In addition, there is also PBI No. 19/12/PBI regarding the implementation of Financial Technology which also confirms that cryptocurrency is not a legal tender in Indonesia. The legal basis for why cryptocurrencies can still be traded in Indonesia at this time is because, referring to the Commodity Futures Trading Regulatory Agency (CoFTRA) No. 5 of 2019, concerning Technical Provisions for the Implementation of the Physical Crypto Asset Market, The regulation defines crypto assets as intangible commodities in the form of digital assets, using cryptography, peer to peer networks, and distributed ledgers to manage new units, verify transactions, and secure transactions without interference from other parties. This means that the regulation also emphasizes that it does not allow cryptocurrency as a means of payment, but as a commodity.

Meanwhile, based on Law No. 32 of 1997 regulating Commodity Futures Trading which has been amended by Law No. 10 of 2011, CoFTRA has the authority to determine commodity futures through a Regulation of the Head of CoFTRA. Therefore, the government issued the Minister of Trade Regulation (Permendag) No. 99 of 2018 concerning the general policy of implementing Crypto Asset Futures Trading. With this rule, the business activities of crypto assets or crypto assets are regulated and supervised by CoFTRA. On that occasion, Rosalia also emphasized that these crypto assets and cryptocurrencies are not classified as electronic money in Indonesia. Because based on Article 15 of Law No. concerning Bank Indonesia, it is stated that BI is the authority authorized to regulate the smooth running of the payment system.

As for electronic money, it is a means of payment in Indonesia, not like cryptocurrencies, so the activity of issuing electronic money is regulated and supervised by Bank Indonesia. Currently, electronic money is regulated in PBI No. 20/6/PBI/2018 concerning Electronic money and the provisions for its implementation. However, BI also issued PBI No. 22/23/PBI/2020 regarding the Payment system. Starting July 1, 2021, there are several provisions for electronic money that will be adjusted. While referring to PBI No. 20/6/PBI/2018, concerning Electronic Money, electronic money is defined as a payment instrument that meets the following elements' Issued on the basis of the value of money that was deposited in advance to the publisher The value of money is stored electronically in a media server or chip The value of electronic money managed by the issuer is not a deposit as referred to in the law governing banking.

The implications of crypto assets and cryptocurrencies on the policies of Bank Indonesia and the government, Rosalia, view that there is a need to strengthen coordination between relevant ministries and institutions, including BI. This coordination aims to mitigate the risks of trading crypto assets and cryptocurrencies in Indonesia.

7. CONCLUSIONS

Cryptocurrency is virtual money that can be used as a means of payment, investment, storage of value, transfer of funds and diversification of investments. The legality of using Cryptocurrencies in Indonesia can only be traded on futures exchanges, as stated in the regulation of the Commodity Futures Trading Supervisory Agency (BAPPEBTI) number 5 of 2019 and the Commodity Futures Trading Supervisory Agency Regulation Number 7 concerning the Establishment of a List of Crypto Assets that can be Traded in the Physical Crypto Asset Market. . To use cryotpcurrency it is necessary to have extensive knowledge and need to understand things such as: the owner of the company, the presence of other large investors who invest in it, ownership of shares in the company or just the currency or tokens (owning shares means participating in its earnings (you are the owner) , while buying tokens means you are entitled to use them, like chips in a casino), and currency development (does the company want to raise money to develop it? The more solid a product, the less risk).

REFERENCES

- Bouri, E., Shahzad, S. J. H., & Roubaud, D. (2019). Co-explosivity in the cryptocurrency market. *Finance Research Letters*, 29, 178-183.
- Caporale, G. M., Gil-Alana, L., & Plastun, A. (2018). Persistence in the cryptocurrency market. *Research in International Business and Finance*, 46, 141-148.
- Chuen, D. L. K., Guo, L., & Wang, Y. (2017). Cryptocurrency: A new investment opportunity?. *The Journal of Alternative Investments*, 20(3), 16-40.
- Corbet, S., Cumming, D. J., Lucey, B. M., Peat, M., & Vigne, S. A. (2020). The destabilising effects of cryptocurrency cybercriminality. *Economics Letters*, 191, 108741.
- Fahlevi, M. Customer Experience Management: The Online Travel Agencies In Indonesia.
- Fahlevi, M. (2021, April). Mediating effect of motivation on employees' performance in a private hospital, Indonesia. In *IOP Conference Series: Earth and Environmental Science* (Vol. 729, No. 1, p. 012001). IOP Publishing.
- Fahlevi, M. (2021, April). Online consumer behaviour and its relationship to website atmospheric induced flow: Insights into online travel agencies in Indonesia. In *IOP Conference Series: Earth and Environmental Science* (Vol. 729, No. 1, p. 012114). IOP Publishing.
- Fahlevi, M. (2021, April). Corporate branding in banking environment: Evidence from acquisition process. In *IOP Conference Series: Earth and Environmental Science* (Vol. 729, No. 1, p. 012130). IOP Publishing.
- Fahlevi, M., Saparudin, M., Maemunah, S., Irma, D., & Ekhsan, M. (2019). Cybercrime Business Digital in Indonesia. In *E3S Web of Conferences* (Vol. 125, p. 21001). EDP Sciences.
- Istan, M., & Fahlevi, M. (2020). The Effect of External and Internal Factors on Financial Performance of Islamic Banking. *Jurnal Ekonomi & Studi Pembangunan*, 21(1), 137-145.
- Istan, M., Husainah, N., Murniyanto, M., Suganda, A., Siswanti, I., & Fahlevi, M. (2021). The effects of production and operational costs, capital structure and company growth on the profitability: Evidence from manufacturing industry. *Accounting*, 7(7), 1725-1730.
- Kasbuntoro, D. I., Maemunah, S., Mahfud, I., Fahlevi, M., & Parashakti, R. D. (2020). Work-life balance and job satisfaction: A case study of employees on banking companies in Jakarta. *International Journal of Control and Automation*, 13(4), 439-451.
- Parashakti, R. D., Fahlevi, M., Ekhsan, M., & Hadinata, A. (2020, April). The influence of work environment and competence on motivation and its impact on employee performance in health sector. In *3rd Asia Pacific International Conference of Management and Business Science (AICMBS 2019)* (pp. 259-267). Atlantis Press.
- Sahir, S., Fahlevi, M., Kasbuntoro, K., & Sutia, S. (2021). Effect of halal food management system certification on buying interest of Indonesian consumer goods. *Uncertain Supply Chain Management*, 9(3), 731-738.
- Vizano, N. A., Khamaludin, K., & Fahlevi, M. (2021). The Effect of Halal Awareness on Purchase Intention of Halal Food: A Case Study in Indonesia. *The Journal of Asian Finance, Economics and Business*, 8(4), 441-453.