

Legal Requirements in the Policymaking of the Islamic Republic of Iran in Confronting the Phenomenon of Global Cryptocurrencies

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Abstract

Global cryptocurrencies are among the most significant and challenging products of modern financial technologies. Through their decentralized technical structure, these cryptocurrencies have challenged the traditional boundaries of monetary and financial sovereignty in terms of governmental oversight. Policymaking regarding how to address this type of cryptocurrency is an important issue whose legal implications can be anticipated only by examining its consequences and effects in the economic and security domains. This study employs a descriptive-analytical method and draws on library sources and news reports. According to the findings, given the characteristics and consequences of global cryptocurrencies—such as the impossibility of centralized oversight, their practical reliance on U.S. dollar-denominated stablecoins, the foreign-exchange costs associated with their mining, and their potential to facilitate financial and security-related crimes—their recognition and promotion in official documents and within the framework of legal governance are assessed as detrimental to financial stability and public order, particularly under Iran's sanctions-related circumstances. Based on this assessment of consequences, the study proposes a threat-oriented approach combining direct and indirect deterrent measures, such as the imposition of heavy taxation. To implement this policy within the country's current legal order, it is proposed that the policy be pursued through the Supreme National Security Council, while matters requiring legislation, including the criminalization of relevant conduct and the determination of proportionate penalties, should be addressed by the Islamic Consultative Assembly.

Keywords: global cryptocurrency, blockchain, stablecoin, public policy, oversight, legislation

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1. Introduction

The rapid development of modern financial technologies (FinTech) over the past decade has reached an economic culmination with the emergence of cryptocurrencies. In their broad and general sense, cryptocurrencies encompass all products based on distributed ledger technology (DLT) and blockchain that possess financial value. These products constitute a digital representation—a string of code—of a value or a right that is securely encrypted and can be electronically transferred and stored through the aforementioned technologies. (Cambridge Centre for Alternative, 2024)

Cryptocurrencies—particularly globally circulating cryptocurrencies such as Bitcoin and Ethereum—have challenged the traditional structure of monetary and banking systems by eliminating intermediary institutions and relying on distributed ledger technology and blockchain technology. (De Filippi & Wright, 2018) The principal feature of this technology lies in its rejection of the concentration of financial power in the hands of governments. Accordingly, it is regarded, on the one hand, as a manifestation of economic freedom and, on the other, as a threat to monetary sovereignty. The importance of examining this subject can be explained from several perspectives. First, cryptocurrencies have transcended the traditional boundaries of monetary and banking law and have resulted in a redefinition of sovereign authority over the financial system. (Böhme et al., 2015) Second, under conditions of sanctions and international banking restrictions, some policymakers regard cryptocurrencies as a supplementary instrument for foreign transactions; however, using them without adequate knowledge of their legal and technical risks may entail irreparable consequences. (Macfarlane, 2021) Third, the absence of a clear legislative policy in Iran has facilitated the emergence of informal markets, financial crimes, and legal disputes, the management of which requires the formulation of a clear legal framework consistent with the principles of public law and the requirements of economic security. The rapid expansion of the cryptocurrency market, the increase in public adoption, and the collapse of major projects and protocols within the cryptoasset ecosystem have revealed the risks inherent in this field and have made cryptocurrency markets an urgent priority for regulatory authorities. In a 2022 global survey of financial authorities, 57% of respondents believed that “consumer risk in the cryptoasset sector is high or very high,” approximately twice the level of risk identified for other financial technologies. (Cambridge Centre for Alternative, 2024) International institutions have warned that slow progress in regulating this field increases risks, including the use of cryptocurrencies—particularly stablecoins—to support illicit activities. Warnings concerning emerging risks to market integrity and macroeconomic and financial stability, including risks associated with the use of stablecoins and the vertical integration of cryptoasset service providers, have increased over the past two years. (Financial Action Task, 2024)

In Iran, despite the cautious position adopted by official institutions, the use of cryptocurrencies in domestic and foreign transactions has increased considerably. A relatively prolonged legislative vacuum, the absence of a coherent policy, and, at times, conflicting policies in this field have left the situation somewhere between “prohibition and acceptance”; thus, some sectors of the state regard cryptocurrencies as an opportunity, whereas others consider them a threat to the country’s economic and security order. The principal question is what the optimal legal policy of the Islamic Republic of Iran toward globally circulating cryptocurrencies should be at the present time, considering the country’s economic and security ecosystem, and how the government should address the official authorization and acceptance of globally circulating cryptocurrencies in the economy while preserving monetary sovereignty. The principal objective of this article is to determine the optimal legal approach for the Islamic Republic of Iran in confronting globally circulating cryptocurrencies so that, while safeguarding the public interest and economic stability, an appropriate legal policy may be selected under current conditions. Accordingly, the article seeks to answer the following two questions:

What are the economic and security consequences of officially recognizing globally circulating cryptocurrencies in Iran?

What legal policies may be regarded as appropriate for reconciling the preservation of monetary sovereignty with the acceptance of globally circulating cryptocurrencies?

A number of studies have addressed the subject matter of this article. The findings of these studies are reviewed below.

Some scholars have proposed minimal, permissive, and development-oriented regulation of the entire cryptocurrency ecosystem. In their view, given the need to minimize governmental intervention in the economy, the primary principle should be self-regulation and the inadmissibility of adopting laws or regulations. Even where governmental intervention becomes necessary, legislation and other forms of mandatory governmental regulation should not be prioritized; rather, a diverse range of approaches, such as soft law, negotiation, measures adopted by authorities, and behavioral interventions, should be employed. (Nabavi & HaghaniFar, 2024) Nevertheless, in the concluding section of the same study, the enactment of comprehensive legislation limiting the powers of the Supreme Council of Cyberspace and the Supreme National Security Council is recommended. (Nabavi & HaghaniFar, 2024)

By contrast, other scholars maintain that the regulatory approach toward cryptocurrencies should be opportunity-oriented and proactive and should employ modern regulatory mechanisms. (Keshavarzi et al., 2024) On this basis, complete

liberalization or maintaining the cryptocurrency sector within a regulatory gray area also creates risks to monetary sovereignty, increases fraud, facilitates capital and foreign-exchange outflows, encourages speculative activities, undermines the exercise of sovereign authority, and threatens domestic markets. (Keshavarzi et al., 2024) Nouri and Navabpour, in a report prepared for the Parliamentary Research Center, preferred a positive regulatory approach and recommended establishing a joint working group to prepare a draft framework for risk management and risk prevention while taking account of the need for flexibility and avoiding harm to already-established activities. (Nouri & Navabpour, 2018) Mahdavi considers a framework designed to manage macroeconomic, financial-stability, financial-integrity, and legal risks preferable to both an “explicit prohibition” policy and a “fully supportive” policy. (Mahdavi, 2023)

Elahyari Fard, while maintaining that the Central Bank Act grants the Central Bank exclusive authority to regulate all dimensions of cryptocurrencies, argues that such authority may be delegated. (Elahyari Fard, 2024) Ultimately, he contends that, to prevent excessively stringent regulation that could create the risk of market underdevelopment, the capacities of other institutions should be utilized in establishing and developing organized foreign-exchange and crypto-money markets, or regulation should be delegated to a self-regulatory process. (Elahyari Fard, 2024)

Omidvar and colleagues have presented recommendations concerning national cryptocurrencies and, with respect to existing cryptocurrencies, have recommended a risk-management policy involving restrictions on high-risk cryptocurrencies, monitoring and controlling illicit and unlawful transactions, customer identification, and the formulation of regulatory and tax rules. (Omidvar, 2023)

A study conducted by the Secretariat of the Expediency Discernment Council maintains that the monetary function of cryptocurrencies should be prohibited, except where they are employed to circumvent sanctions, whereas their nonmonetary functions may be formally recognized and domestic exchanges should be licensed. (Shahchera et al., 2021)

In a 2021 report, the Monetary and Banking Research Institute regarded a preventive approach accompanied by a comprehensive assessment of existing risks as necessary (Shahchera et al., 2021) and argued that the Central Bank should regulate the sector in cooperation with other relevant institutions and should supervise and control the cryptocurrency market jointly with the Ministry of Economic Affairs and Finance and the Ministry of Industry, Mine and Trade. (Shahchera et al., 2021)

Arbab Afzali identifies three possible approaches—prohibition, containment, and regulation—and argues that prohibition would eliminate beneficial innovations and, in practice, would be circumvented. The containment model, moreover, cannot adequately manage market-integrity and consumer-protection risks, and its firewall may prove ineffective. Accordingly, proactive regulation is considered the best option. (Arbab Afzali, 2024) In conclusion, this author maintains that, in Iran, given the enactment of the Central Bank Act, if the Act can be amended, interinstitutional cooperation with the Central Bank through interagency commissions or committees would constitute the preferable option. Under the current legal framework, however, the Central Bank should regulate the sector through a risk-based approach that takes account of macroeconomic and financial-stability risks, risks to the security and integrity of the payment system, and risks relating to financial crime, money laundering, and terrorist financing. (Arbab Afzali, 2024)

As can be observed, the existing literature has predominantly focused on two approaches: “minimal and development-oriented regulation” and “risk-management-based regulation.” Within these approaches, some scholars have adopted an excessively permissive position and recommended self-regulation; some have proposed establishing new institutions that lack regulatory authority and experience; and others have accepted supervision by the Central Bank as the institution responsible for monetary sovereignty. The novelty of the present study lies, first, in its focus on a particular dimension of the cryptocurrency ecosystem, namely the policy of promoting globally circulating cryptocurrencies, including both mining and exchange activities, rather than regulating every dimension of cryptoassets, such as decentralized systems and smart contracts, asset tokenization, and similar developments. Second, the study focuses on the economic and security risks and problems arising from this phenomenon—the promotion of transactions involving globally circulating cryptocurrencies—with priority given to the country’s present domestic conditions. Third, it adopts a hypothesis that differs from those presented in previous studies.

To answer the principal research questions, the economic consequences of promoting globally circulating cryptocurrencies are first examined. Based on this assessment of consequences, appropriate policies and approaches are then analyzed.

Subsequently, the existing policy and regulatory framework governing this field is examined under current laws, and finally, the Conclusion proposes a mechanism for pursuing the preferred policy within the country's existing legal order.

2. Economic Analysis of the Consequences

This section examines the macroeconomic and security consequences of promoting globally circulating cryptocurrencies within the territory of Iran.

2.1. Violation of Monetary Sovereignty

Following the thinking of theorists associated with schools of economics that seek to minimize or eliminate the role of the state, governmental intervention in economic affairs is viewed as disrupting markets, destroying economic equilibrium, and undermining economic freedom. Blockchain, as a leading technology in information-security theory, provides an appropriate infrastructure for liberating economic transactions by eliminating the government as a third-party intermediary and supervisor. This is because, as long as asset transfers occur within a blockchain environment, the identities and geographical locations of asset holders remain concealed from outsiders. Furthermore, the validity and value of the asset depend upon approval by the majority of participants in the blockchain network and upon supply and demand, while acceptance or rejection by sovereign authorities has comparatively little effect on its financial validity.

Cryptocurrencies, as one of the disruptive technologies in the FinTech sector, have challenged the traditional concept of money and governmental control over its issuance and circulation. Because most globally circulating cryptocurrencies lack institutional guarantees and derive their value solely from the collective trust of network users, (Narayanan et al., 2016) their widespread use in domestic transactions reduces transparency regarding the identification of the origin and destination of transactions from the perspective of public economics and complicates the enforcement of monetary and tax regulations. Furthermore, unbacked cryptocurrencies generate no productive cash flow, and their price behavior is largely determined by expectations and network effects. (Böhme et al., 2015; Halaburda et al., 2022) Accordingly, their widespread use functions in a manner similar to speculation in asset markets and may divert liquidity toward nonproductive sectors. Undoubtedly, one of the indicators of a healthy economy is an increased rate of production of real goods and services and expanded employment in productive industries. The expansion of an underground and nonproductive economy, on a macroeconomic scale, contributes to inflation and artificially increases demand. A prominent example of such a process is the cycle of unbacked cryptocurrencies, which, because of their quasi-monetary function and absence of any objective benchmark, acquire value only through aggressive demand generated by emotionally driven market fluctuations, without being connected to the real economy and without generating any productive activity as they expand.

Clearly, if this reality develops into an expanding practice within the jurisdiction of a state and in competition with a centralized economic system, it constitutes not merely an undesirable phenomenon but also a form of economic instability. It appears that, where a country's economic system has long suffered from both the "absence of a systematic connection between transactions involving goods and property, whether movable or immovable, and rial-denominated transactions" and the "absence of adequate traceability in the centralized financial-credit system," the penetration and expansion of globally circulating cryptocurrency transactions within that financial system would further intensify these problems. In Iran, given the centralized structure of monetary policy, this phenomenon may weaken the authority of the Central Bank, facilitate the creation of unbacked money, impair liquidity control, and increase artificial or nonproductive employment. The greater the attraction toward nonproductive and negative economic activities, the greater the reduction in purchasing power resulting from inflation. The experiences of countries such as China and India demonstrate that relinquishing financial control over cryptocurrency markets may constitute a direct threat to the stability of the national currency and the economic order. (Gorton & Zhang, 2023)

2.2. Dollarization Through Reliance on Stablecoins

When cryptocurrencies are exchanged within the blockchain environment, they cannot dispense with a means of measuring value. Moreover, these assets must maintain a relationship with fiat currencies, meaning that they must remain capable of being

converted into such currencies within the digital environment. In this context, stablecoins play a significant role as an intermediary bridge between the traditional financial system and decentralized systems. Stablecoins—as their name suggests—are designed to maintain a stable value relative to other assets, including fiat currencies. Compared with other cryptocurrencies, stablecoins are more likely to be used for payments and create distinctive risks to financial stability and monetary sovereignty. (Cambridge Centre for Alternative, 2024) Financial authorities responsible for developing cryptocurrency-market regulations have therefore prioritized stablecoins in their regulatory agendas. Stablecoins have the potential to develop into an alternative monetary system that enables users to transfer money and make payments more rapidly and cheaply and with greater technological functionality than traditional forms of money. (Cambridge Centre for Alternative, 2024)

Tether, as the most popular U.S.-dollar-based cryptocurrency, is the most commonly used instrument for obtaining globally circulating cryptocurrencies. Although cryptocurrencies may be exchanged directly for one another, unpredictable volatility makes it necessary to have cryptocurrencies that are stable while enjoying a level of acceptance similar to that of fiat currencies; at present, Tether performs this function in most cases. Globally, a substantial proportion of cryptocurrency transactions are conducted through stablecoins, particularly Tether (USDT). Although these tokens appear stable, their dependence on the U.S. dollar and their issuance by centralized companies create significant risks. Financial-law research has shown that stablecoins may function in practice in a manner comparable to unsupervised private banking and may generate severe instability during periods of crisis. According to such research, asset-backed stablecoins, in the absence of prudential supervision, intensify systemic risk and dollarization. (Gorton & Zhang, 2023) Because Tether is centrally administered and its issuer, the Tether entity, possesses the power to restrict or block assets by freezing users' wallets, it constitutes a high-risk entity in addition to reinforcing the dollar-based monetary cycle. Tether's issuers have also accepted extensive cooperation with sanctions regimes imposed by countries including the United States and have emphasized compliance with such measures. (Macfarlane, 2021)

Accordingly, although Iranian users' reliance on Tether stablecoins has apparently increased market liquidity, in practice it has created indirect dependence on the U.S. dollar and increased the risk that assets may be blocked by foreign issuers.

2.3. Mining: A Nonproductive Cycle of Foreign-Exchange Outflow

One of the most important economic consequences of globally circulating cryptocurrencies is the foreign-exchange cost of mining. Mining these cryptocurrencies—particularly Bitcoin—requires expensive equipment and high levels of energy consumption. A large proportion of this equipment is imported, thereby resulting in foreign-exchange outflows from the country. International studies likewise confirm that mining farms operating in countries with inexpensive energy effectively transform national energy subsidies into a source of private, nonproductive profit. (de Vries, 2018; Truby, 2018) From an economic perspective, cryptocurrency mining without the creation of added value constitutes consumption of scarce national resources. Mining equipment is also imported from particular manufacturing countries. This means that, for each imported unit, foreign currency is ordinarily transferred from resources belonging to the country. Under sanctions, the difficulty of transmitting foreign currency to the manufacturer or its intermediaries further increases this foreign-exchange burden. Accordingly, under conditions of sanctions and rationing of foreign-exchange reserves, the foreign-exchange cost of importing mining equipment cannot be regarded as economically prudent or a priority. Although a 2019 Cabinet resolution emphasized the possibility of using cryptocurrencies obtained through mining operations, or so-called first-hand cryptocurrencies, for priority imports and sought to facilitate the return of foreign currency that had left the country, implementation has been difficult because of the supervision-resistant nature of the phenomenon and has not, to date, been effectively realized.

Furthermore, the economic benefit of foreign-exchange outflows associated with imports must be assessed against the allocation of gas and electricity resources to mining rather than export, as well as the pressure placed on electricity-generation resources during hot seasons under conditions of supply shortages. Consequently, the opportunity cost of engaging in this type of business remains highly contested. In addition, the environmental consequences of cryptocurrency mining have increasingly entered the regulatory agendas of authorities in different countries, particularly because increases in Bitcoin adoption and price have had a corresponding effect on energy demand. The Cambridge Centre for Alternative Finance (CCAF) has conducted research in this area that resulted in the development of the Cambridge Blockchain Network Sustainability Index (CBNSI).

The index provides estimates of energy consumption and greenhouse-gas emissions associated with blockchains such as Bitcoin and Ethereum. (Cambridge Centre for Alternative, 2024) (Cambridge Centre for Alternative, 2024)

Moreover, in the absence of deterrent criminalization of unauthorized mining in Iran, the use of subsidized electricity has imposed additional pressure on the electricity-generation and distribution network. Consequently, broadly recognizing the mining of globally circulating cryptocurrencies such as Bitcoin may create a conflict between private interests and the public interest, because the energy intensity and carbon footprint of Proof-of-Work networks require targeted pricing and regulatory interventions. (de Vries, 2018; Truby, 2018) In practice, however, such measures have encountered resistance from miners and have merely expanded the scope of unauthorized mining. (Truby, 2018) Under the country's sanctions-constrained and pressured economic conditions, where demand in the dollar and gold markets has already deprived productive sectors of real investment and financial flows, an expansion in cryptocurrency transactions—which are fundamentally disconnected from the markets for real goods and services—would undoubtedly have harmful effects.

2.4. Expansion of Economic Crime

As discussed above, globally circulating cryptocurrencies are created on distributed-ledger infrastructures, which generally entail concealment of the identity of the asset holder and uncertainty regarding the geographical location of the asset. This characteristic has facilitated the use of cryptocurrencies in numerous offenses, including tax evasion, money laundering, terrorist financing, kidnapping, and various crimes involving financial payments, particularly through systems that are beyond the reach of domestic detection mechanisms. The ease with which such systems can be used may also increase incentives to commit these offenses. The country's centralized and formal financial system, which may potentially identify cryptocurrency asset holders when cryptocurrencies are liquidated or converted from rials into cryptocurrencies and vice versa, itself suffers from inadequate enforcement of anti-money-laundering regulations and insufficient traceability and transparency in transactions, thereby intensifying the challenges involved. Where cryptoassets have an identifiable issuer that offers them directly or indirectly to the public, regulators may impose rules on the entity responsible for issuance or offering. Where no issuer exists at all, as in the case of Bitcoin, or where no public offering occurs through which an issuer or offeror can be identified, this supervisory pathway is unavailable. (Cambridge Centre for Alternative, 2024) At the international level, regulatory bodies, including the Financial Action Task Force (FATF), have repeatedly warned that the anonymity associated with cryptocurrency transactions creates a favorable environment for money laundering, tax evasion, and illicit financing. (Johnson, 2021) This concern is particularly serious in relation to privacy-oriented cryptocurrencies such as Monero and Dash, whose limited traceability can create more significant risks to national economic security. (Böhme et al., 2015)

Accordingly, the removal of the banking system from decentralized cryptocurrency systems—as the institution responsible for identifying parties to transactions and, where necessary, ensuring the return of funds—has unfortunately contributed to an increase in multi-claimant judicial cases arising from false promises regarding cryptocurrency investments and payments. (Financial Action Task, 2024) Weak supervision and the absence of obligations requiring domestic exchanges to implement Know Your Customer (KYC) procedures and report suspicious transactions to the relevant authorities, such as the Financial Intelligence Unit, may intensify economic crime and, consequently, security-related offenses.

3. Appropriate Legal Approaches

In view of the assessment of consequences presented in the previous section, appropriate legal policies for addressing globally circulating cryptocurrencies are examined below.

3.1. Restricting the Official Recognition and Promotion of Globally Circulating Cryptocurrencies

Given the adverse effects of widespread globally circulating cryptocurrencies on national monetary policy, the first and most realistic strategy is a threat-oriented approach aimed at preventing the development of unbacked cryptocurrencies. From the perspective of public law, preventing economic crime constitutes one of the fundamental functions of the state. Accordingly, national legal policy should be designed so that opportunities to misuse cryptocurrency infrastructures are minimized and their

decentralized characteristics are transformed, within sovereign jurisdiction, into an internally controllable layer—something that, under current conditions, is effectively impossible. Under this model, the legislature regards cryptocurrency not as a legitimate financial instrument but as a high-risk phenomenon affecting the economic order and bases its legislative policy on maximum restriction. Within this framework, cryptocurrency activities would be permitted only under exceptional circumstances and pursuant to limited authorization, while individual transactions and unlicensed platforms would be prohibited and subject to penalties. In this regard, some countries, including China, have implemented a range of restrictive measures, such as prohibiting initial coin offerings (ICOs) and banning cryptocurrency exchanges. In Nigeria, most restrictions have been imposed on banks to limit their ability to provide services to individuals or companies offering cryptocurrency-related services. China's experience, in which cryptocurrency trading was declared unlawful in 2017 and even mining was prohibited in 2021, constitutes an example of the implementation of this policy. (Houben & Snyers, 2018) In a significant number of jurisdictions among emerging-market and developing economies, the use of cryptocurrencies or provision of cryptocurrency-related services has been prohibited. (Cambridge Centre for Alternative, 2024)

In Iran, implementation of this approach may likewise be regarded as appropriate from the perspectives of public law and criminal policy, based on the aforementioned considerations and the economic opportunity costs involved. Criminalizing cryptocurrency exchange through unauthorized platforms, refusing to hear claims arising from unauthorized cryptocurrency transactions in ordinary courts, and increasing penalties where cryptocurrencies are used for money laundering or currency smuggling are among the domestic measures that could be implemented under this approach. From the perspective of criminal policy, such deterrent measures may be justified by the objective of preserving the public economic order. As one scholar of financial-market law has observed, jurisdictions that have adopted more stringent criminal policies toward cryptocurrencies have been more successful in controlling cryptocurrency-related financial crime. (Johnson, 2021) Nevertheless, a threat-oriented approach should be accompanied by public information and education so that citizens become aware of the financial and legal risks associated with cryptocurrencies. Otherwise, prohibition without adequate public awareness may encourage underground markets and increase violations. (Halaburda et al., 2022)

3.2. Strict Prohibition of the Use of Stablecoins

Stablecoins are a type of cryptocurrency designed to maintain a stable value by being backed by or referenced to the value of an official currency. They function both as the principal means of payment for transactions involving other cryptocurrencies on cryptocurrency exchanges and as monetary instruments outside cryptocurrency markets. Because of their monetary function and their impact on national monetary sovereignty, their regulation is highly sensitive. Even in jurisdictions that have adopted promotional and development-oriented cryptocurrency policies, financial authorities responsible for market regulation have prioritized stablecoins and subjected this category of cryptocurrency to more stringent rules. From a comparative perspective, the issuance of stablecoins in Hong Kong, the United Kingdom, and the United Arab Emirates requires a specialized stablecoin license. In the European Union, the United Kingdom, and the United Arab Emirates, stablecoin issuers are expressly prohibited from paying holders interest generated from reserve assets. In the European Union, these requirements are expressly prescribed by legislation. Hong Kong and Singapore likewise possess statutory authority to impose stricter supervisory requirements on stablecoins depending on the level of risk. In Singapore, although stablecoins issued outside Singapore or pegged to other currencies are not prohibited, they are regulated as “other digital payment tokens” and may not be marketed as “MAS-regulated stablecoins.” (Cambridge Centre for Alternative, 2024) Under the Markets in Crypto-Assets Regulation (MiCA), stablecoins referencing a single fiat currency are classified as Electronic Money Tokens (EMTs), while stablecoins backed by a basket of assets are classified as Asset-Referenced Tokens (ARTs). Issuers of EMTs denominated in non-EU currencies and issuers of ARTs are subject to two principal restrictions:

First, the European Central Bank or the central bank of a Member State, where its official currency is not the euro, has the authority to refuse or revoke authorization granted to the issuer of an ART that poses risks to monetary sovereignty. Such risk arises when an ART that creates an alternative unit of account becomes widely used. Second, issuers are required to cease the issuance of non-euro-denominated ARTs and EMTs and submit a plan to reduce their use as a means of exchange where the

number of transactions exceeds one million transactions per day and the transaction volume exceeds EUR 200 million per day. (Cambridge Centre for Alternative, 2024)

These developments demonstrate that even in nonsanctioned jurisdictions characterized by financial transparency, stablecoins are subject to stricter regulatory treatment than other cryptocurrencies. In the Iranian economic system, the use of stablecoins such as Tether presents even greater risks and challenges. In Iran, which is subject to international, European Union, and United States sanctions, maintaining financial autonomy and avoiding dependence on foreign powers have consistently been regarded as important considerations. From the perspective of the principles governing public law, the dependence generated by Tether on a foreign entity therefore creates a clear conflict with the principles of economic independence and national financial security. In the absence of a national mechanism or the possibility of effective supervision, reliance on stablecoins exposed to sanctions, including Tether—given the Tether issuer’s practice of cooperating with sanctions regimes and the currency’s dependence on the U.S. dollar—amounts to the continuation of the monetary dominance of the international financial system and is inconsistent with the overarching objectives of Iran’s monetary policy. Accordingly, strict prohibitions as the ultimate measure, preceded by rigorous supervision aimed at preventing growth in the volume of Tether and similar transactions, should constitute fundamental elements of legislative policy.

3.3. Indirect Deterrence

Where complete implementation of the restrictive policy described above is not technically or socially feasible, economic regulatory instruments may be employed to control the cryptocurrency market. Rather than imposing an absolute prohibition, this approach uses fiscal and pricing policies to reduce the attractiveness of cryptocurrency activities. Several examples of measures based on this approach are presented below:

(a) Taxation of profits derived from cryptocurrency trading should be imposed at the highest feasible rate. India’s experience with a 30% tax on cryptocurrency gains demonstrated that this measure effectively reduced trading volume. (Shome, 2022) Furthermore, the International Monetary Fund has maintained that the regulation and supervision of cryptoasset service providers constitute an important foundation for data collection, the adoption of effective capital-flow management measures, and the development and enforcement of fiscal and tax policies in this sector. (Cambridge Centre for Alternative, 2024)

In Iran, income derived from cryptocurrency transactions could similarly be subjected to progressive taxation to reduce the attractiveness of speculative activity in this sector. Although the Taxation of Speculation and Speculative Trading Act was enacted in 2025, first, the necessary implementation infrastructure has not yet been established, and the text of the Act itself provides a two-year period for establishing such infrastructure. Because of conflicts of interest among stakeholders and potential obstruction, implementation may take years, or, even if the necessary infrastructure is established, enforcement may lack the required quality and precision. Second, the Act provides very broad exemptions for cryptocurrency transactions, while opportunities exist to evade or circumvent cases that clearly fall within its scope. Third, the prescribed tax rate is far removed from the approach advocated in the present study.

(b) Electricity and gas tariffs applicable to cryptocurrency mining should be determined on the basis of actual cost or even at rates exceeding export prices. (Truby, 2018) This measure would, on the one hand, prevent the waste of energy resources and national subsidies and, on the other, ensure that cryptocurrency mining remains economically viable only for small and efficient units. At the same time, unauthorized mining should be subject to severe sanctions. Unfortunately, the absence of criminalization in this respect constitutes one of the principal regulatory gaps in Iran’s cryptocurrency framework.

(c) All cryptocurrency exchanges and platforms should be required to register transactions within the country’s tax and banking systems in order to prevent tax evasion and capital flight. This issue has also been addressed in the Taxation of Speculation and Speculative Trading Act. However, first, as noted above, the implementation infrastructure for the Act has not yet been established, and its enforcement presents significant practical difficulties. Second, the domestic regulatory authority responsible for supervising these exchanges has not yet been definitively determined, preventing the effective implementation of legal obligations applicable to them.

Taken together, these policies may gradually reduce public demand for cryptocurrencies without requiring a complete prohibition. As European experience demonstrates, the use of taxation and tariff instruments constitutes one of the most effective approaches for mitigating cryptocurrency-related risks. (Houben & Snyers, 2018)

3.4. Avoiding Direct and Explicit Measures in the Use of Cryptocurrencies to Circumvent Sanctions

One of the principal motivations and justifications for accepting cryptocurrencies in Iran is their potential use in circumventing international financial sanctions. One of the main reasons underlying a positive approach to cryptocurrencies is the possibility of using their concealed infrastructure as a means of bypassing sanctions. Although cryptocurrencies have in practice been used, and continue to be used, by sanctioned states and organizations to circumvent sanctions, several factors have limited the effectiveness of this mechanism. The proliferation of foreign institutions and exchanges operating as third parties and actors outside blockchain networks—as points at which cryptocurrency investors, purchasers, and sellers congregate—and the emergence of institutions operating under the supervision of rival intelligence services and providing cryptocurrency-transaction tracing services have greatly increased the points at which cryptocurrency transactions, particularly those involving sanctioned countries, can be identified. Furthermore, the difficulty of establishing trust with counterparties when purchasing or selling cryptocurrencies, especially given the absence of a third party to hold assets, the impossibility of reversing transactions in decentralized systems, and the lack of judicially admissible evidence for resolving disputes between parties, further restricts and reduces the attractiveness of cryptocurrency-based sanctions circumvention.

Apart from these limitations, it must be recognized that adopting explicit legislation in this field may increase sanctions exposure and reveal alternative methods used for circumventing restrictions. (Macfarlane, 2021) Accordingly, it is recommended that infrastructures for using cryptocurrencies in sanctions-related transactions be managed informally and at an infrastructural level and that formal legislation in this area be avoided, because such legislation could increase scrutiny and trigger adverse reactions by international institutions toward Iran. (Macfarlane, 2021) For example, according to a report issued by Chainalysis on June 18, 2025, Nobitex, Iran's largest digital-asset exchange platform, was subjected to a cyberattack that resulted in the theft of more than USD 90 million in digital assets. The group known as Predatory Sparrow claimed responsibility for the attack. According to the institution's account, Nobitex, with a trading volume exceeding USD 11 billion, plays a central role in providing Iranian users with access to global cryptocurrency markets and has been identified as a channel for circumventing international sanctions. Transactions conducted through the exchange allegedly included activities involving sanctioned entities, including groups affiliated with Hamas, the Houthis, and certain Russian exchanges. (Macfarlane, 2021) This example demonstrates that the absence of discreet and intelligent management of globally circulating cryptocurrencies used for sanctions circumvention may result in the identification and freezing of the relevant assets and the loss of access to corresponding imports.

4. Examination of the Legal Status in the Islamic Republic of Iran

This section describes and analyzes the legal status of cryptocurrency regulation in the legal system of the Islamic Republic of Iran from a historical perspective and across the different fields of mining and exchange in order to assess the feasibility of pursuing the preferred policy within this framework.

4.1. Prohibition of Cryptocurrency Use Under the Resolution of the Supreme Council for Combating Money Laundering

The first regulatory intervention by the Islamic Republic of Iran in the field of cryptocurrencies occurred in 2017 through a resolution of the Council for Combating Money Laundering. In view of the severe fluctuations in Bitcoin's value at that time—its rise to USD 19,000 followed by a sudden collapse—the decision was made to prohibit financial institutions, banks, and exchanges from entering this field. The text of the resolution was never publicly released, and it was only on April 22, 2018, that the Central Bank disclosed its contents. (Ghamami & Alipour, 2022) Although questions have been raised regarding the subject-matter jurisdiction of the Council to intervene in this issue (Ghamami & Alipour, 2022), the decision may be regarded as economically sound and has remained the basis of practice to the present day. Apart from instances in which certain banks have attempted indirectly to circumvent this restriction in relation to the acceptance of cryptocurrencies as collateral through lending-technology companies, (Nabavi & Haghani, 2024) implementation of the resolution may also be regarded as satisfactory. The prohibition imposed on banks and financial institutions by this resolution is consistent with the threat-oriented policy advocated in this study.

4.2. Cabinet Resolutions of 2019 and 2022 Concerning Cryptocurrencies, With Emphasis on Mining

In 2019, following extensive debate in various forums, the Cabinet adopted a resolution concerning cryptocurrency mining. In 2022 and 2023, after adoption of a new mining regulation, all provisions of the earlier resolution, except the opening part of Article 1 and Note 2 thereto, were declared repealed. The 2019 resolution and the subsequent 2022 mining regulation contributed to some extent to organizing cryptocurrency mining and addressed three principal areas: “issuance of mining licenses by the Ministry of Industry, Mine and Trade,” “determination of import requirements by the Customs Administration,” and “determination of electricity-use requirements and applicable pricing rules by the Ministry of Energy.” These two resolutions also required the Central Bank and the Ministry of Industry, Mine and Trade to establish the necessary infrastructure for using domestically mined, or first-hand, cryptocurrencies to meet the country’s import requirements. Nevertheless, the Central Bank has not succeeded in developing the technical and supervisory infrastructure required to direct first-hand cryptocurrencies toward necessary imports or to enable miners to benefit from tax exemptions linked to the repatriation of foreign currency generated through exports. The most significant gap that these two resolutions were incapable of addressing, however, was the absence of criminalization of unauthorized mining. Criminalization cannot be achieved through an administrative regulation and requires legislation. In this regard, the strongest sanction currently available is a limited response under the 2017 Act on Punishing Unauthorized Users of Water, Electricity, Telephone, Wastewater, and Gas Services, which in practice has not provided sufficient deterrence against unauthorized cryptocurrency mining.

Furthermore, the status of domestic transactions remained more ambiguous because Article 1 of the 2019 resolution prohibited domestic exchange while failing to clarify the position of domestically mined cryptocurrencies, particularly in operational practice where exchanges continued to function and no statutory enforcement mechanism had been established.

4.3. Resolution of the High Commission for Regulation of Cyberspace Concerning the Regulation of Cryptocurrency Regulators

Pursuant to the obligation expressly established in Row 22 of Note 3 to Paragraph (d) of the Strategic Document of the Islamic Republic of Iran in Cyberspace, adopted by the Supreme Council of Cyberspace, the High Commission for Regulation of Cyberspace adopted the document entitled “Regulatory Framework for Cryptocurrencies, Including the Creation of a National Cryptocurrency and the Organization of the Use of Globally Circulating Cryptocurrencies” on January 8, 2025. The resolution, which organizes sectoral regulators and authorities responsible for different subject areas in carrying out their executive duties, seeks to establish both micro- and macro-level policies governing the cryptocurrency sector and to define its principal directions. The objectives of the document include regulation, transparency, visibility of cryptocurrency transactions, prevention of their use for payment and settlement purposes, and, in summary, rendering the relevant processes amenable to supervision. Accordingly, various regulators—including the Central Bank, the Ministry of Industry and Mine, Central Insurance of Iran, the Financial Intelligence Unit, the Judiciary, security and law-enforcement agencies, and even the Ministry of Culture and Islamic Guidance in relation to advertising—are assigned duties and subjected to certain prohibitions concerning cryptocurrencies through the document’s seven articles and accompanying notes.

Of particular relevance to the subject of the present study is Article 2 of the resolution, which, in relation to macro-level national policy toward cryptocurrencies, provides for a supportive policy concerning the development, promotion, and lawful widespread use of asset-backed cryptoassets with transparent transactions, including traceability and identity verification, while prescribing a policy of control or active confrontation toward globally circulating cryptoassets through the adoption of “control-oriented regulation” and “risk management.” This provision demonstrates that the policymaking authority has correctly recognized the incompatibility of globally circulating cryptoassets with the country’s existing circumstances from the perspective of macroeconomic policy. Accordingly, unlike backed cryptocurrencies, the overarching policy toward this category is centered on control and management rather than development and support. Nevertheless, although this policy has been formally declared, it has thus far neither been reflected in the other provisions of the document nor implemented through subordinate regulations and therefore remains largely declaratory.

In addition, the legal weight of the resolution in relation to matters for which other statutory institutions, including the Islamic Consultative Assembly, have enacted legislation remains contested. The question remains whether a resolution of the High Commission for Regulation, although the Commission itself was created by the Supreme Council of Cyberspace, has a

status equivalent to a resolution of the Council itself or whether, within the hierarchy of laws and regulations, it occupies a level subordinate to statutory law.

4.4. The Central Bank Act of 2024

The Central Bank Act of the Islamic Republic of Iran was enacted on June 19, 2024, and repealed many provisions of the Monetary and Banking Act. Paragraph (zād) of Article 1 of this Act defines “crypto-money” as “a type of encrypted money that is created on a shared-data infrastructure, either centrally under the authority of the Central Bank or in a decentralized manner, and is exchanged in a decentralized manner.” Pursuant to Paragraph 13 of Part (a) of Article 4, regulation of crypto-money and supervision over its exchange, within the framework of applicable laws, fall within the authority of the Central Bank. Article 59 emphasizes the Central Bank’s exclusive responsibility for issuing the necessary directives concerning crypto-money. On the basis of this statutory mandate, the Executive Board of the Central Bank issued the Directive on the Establishment, Operation, Dissolution, and Supervision of Crypto-Money Brokers on October 5, 2025.

Accordingly, despite ambiguity regarding the precise scope of the term crypto-money, the absence of clarity as to whether it is coextensive with or distinct from cryptoassets, and the lack of any detailed classification in the Central Bank Act, from an economic-policy perspective and assuming that globally circulating cryptocurrencies fall within the concept of crypto-money, the legislature has regarded the phenomenon as affecting the monetary market and has entrusted its statutory regulation to the institution responsible for the country’s monetary and foreign-exchange markets. It can therefore be argued that globally circulating cryptocurrencies cannot lawfully operate solely within commodity or capital markets without consideration of their monetary and foreign-exchange effects and threats.

4.5. The Taxation of Speculation and Speculative Trading Act

In the Taxation of Speculation and Speculative Trading Act, enacted on June 29, 2025, the legislature once again defined “crypto-money” in Paragraph 24 of Article 11 using the same wording employed in the Central Bank Act and expressly characterized “cryptocurrency” as a form of “crypto-money.” Paragraph 25 of the same Act, however, introduces the term “cryptoasset” and defines it as “a digital asset created and exchanged on a shared database in a centralized or decentralized manner.” If these multiple definitions are understood as an attempt by the legislature to classify different forms of cryptocurrencies in the broad sense, the distinction between cryptoassets and cryptocurrencies, together with the classification of globally circulating cryptocurrencies as cryptocurrencies, would place them within the category of crypto-money and therefore within the regulatory jurisdiction of the Central Bank, thereby subjecting them to the economic policies applicable to monetary markets.

Conversely, if the Act is not understood as providing a precise classification or establishing the legality of transactions involving all categories, it offers little assistance in determining the precise distinction among crypto-money, cryptocurrencies, and cryptoassets and leaves the classification of globally circulating cryptocurrencies substantially ambiguous. In conclusion, the statutory authorization to levy taxes on these categories cannot be interpreted as authorizing or legitimizing all categories of cryptocurrency transactions or treating all such transactions as ordinary commercial activities comparable to other forms of trade. The Act is concerned solely with explaining the necessity of taxation in financial markets and does not purport to establish the principle, mechanisms, authorization, or substantive legal nature of activities involving globally circulating cryptocurrencies within the country. In this respect, the Act is effectively silent and neutral regarding national policy toward globally circulating cryptocurrencies and therefore does not preclude restrictions on transactions involving them.

5. Conclusion

Determining the appropriate legal policy for dealing with globally circulating cryptocurrencies in Iran depends upon the infrastructure of the national economy and the manner in which that economy interacts with globally circulating cryptocurrencies. The greater the severity of economic problems—including inflation and depreciation of the national currency, artificial and speculative markets, sanctions and external attacks on the country’s economy, insufficient transparency in banking transactions, and the possibility of concealing the sources of assets—the less appropriate it becomes to pursue policies aimed

at officially recognizing, promoting, and expanding globally circulating cryptocurrencies. Furthermore, consideration of the theoretical foundations underlying the emergence of cryptocurrencies—including realization of a free-market economy, creation of private money insulated from governmental supervision and sovereign control, the tendency of the cryptocurrency ecosystem ultimately to depend on stable cryptocurrencies backed by dollar reserves such as Tether, and the use of the U.S. dollar as a benchmark for cryptocurrency valuation—demonstrates the unsuitability of such a policy on a more fundamental basis and from a broader perspective. In this context, the potentially dangerous normalization of globally circulating cryptocurrencies through legal or regulatory instruments in Iran, which increasingly tends toward treating them as ordinary and expanding business activities, may, even where justified in terms of market control and transparency, implicitly encourage inexperienced and ordinary participants to enter an opaque market operating through the concealed infrastructure provided by blockchain technology. In practice, this may result in the waste of resources and uncontrolled foreign-exchange outflows, which, under the country's sanctions conditions, are incompatible with economic security. By contrast, a threat-oriented approach may be implemented directly or indirectly through complementary instruments such as taxation, energy tariffs, or a combination of both.

In practical terms, examination of Iran's legal instruments clearly reveals the absence of a unified public policy and a single legal and economic command structure. On the one hand, pursuant to the powers expressly granted under the Central Bank Act, the Central Bank has issued a resolution concerning the activities of cryptocurrency exchanges that has not yet been implemented. On the other hand, the Regulatory Commission of the Supreme Council of Cyberspace, adopting a narrow interpretation of the Central Bank's powers under the aforementioned Act, has formulated a new policy and division of regulatory responsibilities. At present, the matter is complicated by ambiguity concerning the relationship and hierarchy between the Central Bank's regulation governing crypto-money and the resolutions of the High Commission for Regulation of Cyberspace concerning policymaking and the allocation of responsibilities among numerous executive bodies. Differences in interpretation between the Supreme Council of Cyberspace, as a higher-level policymaking institution, and specialized economic bodies such as the Central Bank and the Securities and Exchange Organization, the absence of adherence by these institutions to a single policymaking authority, direct intervention by policymakers in executive matters, the emergence of new claimants to regulatory authority such as the Ministry of Information and Communications Technology, and the submission of bills and legislative proposals concerning regulation to the Islamic Consultative Assembly have further intensified these challenges.

Under such circumstances, in order to pursue what this study considers the appropriate policy toward globally circulating cryptocurrencies—namely, a policy aimed at neutralizing the threats arising from their proliferation because of their effects on the monetary market—and considering the ambiguities in existing legislation, including the Central Bank Act and the resolutions of the High Commission for Regulation of the Supreme Council of Cyberspace, as well as the absence of a clearly designated authority responsible for supervising and determining whether individual globally circulating cryptocurrencies should be classified as cryptoassets or crypto-money, it is proposed that, alongside the pursuit of independent and deterrent criminalization by the Islamic Consultative Assembly of the use of cryptocurrencies as settlement instruments, overarching legal policy, strategic direction, and unified command should be established by a resolution of the Supreme National Security Council.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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