
Juridical Analysis of Crypto Currency Regulation in Indonesia and Its Implications for Consumer Protection

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Abstract

The rise of cryptocurrencies has brought both opportunities for innovation and challenges in safeguarding consumer interests. Indonesia has taken proactive steps to regulate this emerging domain by implementing regulations around trading cryptocurrencies as commodities on dedicated exchanges. However, the current regulatory landscape still exhibits certain gaps that need to be addressed to strengthen consumer protection standards. This research conducts a comprehensive juridical analysis of the existing regulations governing cryptocurrencies in Indonesia. It examines the key provisions aimed at safeguarding consumers such as KYC requirements, mandates around secure asset storage, risk disclosures, and minimum capital standards for exchanges. The analysis also highlights regulatory challenges including lack of comprehensive data protection laws, absence of clear liability frameworks and dispute resolution mechanisms, and limited regulatory capacity. The research discusses the implications of the current regulations, both in terms of potential overregulation stifling innovation and the need for more robust measures enhancing consumer protection. It advocates for a balanced approach of developing an enabling yet risk-based regulatory framework through extensive stakeholder consultation. Legal clarity through unified asset classification, delineating regulatory jurisdictions, detailed guidelines covering consumer rights and taxation are emphasized. Overall, the research argues that while Indonesia has taken positive initial steps, a more nuanced and comprehensive regulation elevating consumer protection without inhibiting innovation in this rapidly evolving space is still imperative. Recommendations for policy measures to bridge the existing gaps are provided.

Keywords: *Cryptocurrency, Regulation, Consumer Protection, Indonesia, Legal Framework*

Introduction

The rise of cryptocurrencies has disrupted traditional financial systems and presented both opportunities and challenges for regulators worldwide (Brassard, 1995). As a rapidly evolving technology, cryptocurrencies have garnered significant interest from investors and businesses, yet their decentralized nature and potential risks have raised concerns about consumer protection (Haruna, 2022). Indonesia, as one of the

largest economies (Mesra, Korompis, et al., 2023) in Southeast Asia, has taken steps to regulate the cryptocurrency landscape, recognizing the need to strike a balance between fostering innovation and safeguarding consumer interests (Anzilimah, 2020).

This analysis will delve into the regulatory framework governing cryptocurrencies in Indonesia, with a particular focus on its



implications for consumer protection (Yang et al., 2005). It will examine the key provisions and requirements outlined in the relevant legislation, such as the Trade Ministry Regulation No. 99/2018 on Crypto-Asset Trading Policy. The analysis will explore the positive and negative implications of the current regulatory approach, evaluating its effectiveness in protecting consumers (Afif et al., 2023) from potential risks associated with cryptocurrency transactions, such as fraud, market manipulation, and cybersecurity threats (Levy, 1996).

Furthermore, this study will identify potential areas for improvement within the existing regulatory framework, drawing insights from international best practices and emerging trends in the cryptocurrency space. By assessing the strengths and weaknesses of the current regulatory landscape, this analysis aims to provide valuable insights and recommendations for policymakers and stakeholders in Indonesia to enhance consumer protection while promoting responsible innovation in the cryptocurrency domain (Nguyen, 1999).

Ultimately, this juridical analysis seeks to contribute to the ongoing discourse on cryptocurrency regulation and its impact on consumer protection, highlighting the unique challenges and opportunities faced by Indonesia in navigating this rapidly evolving technological landscape (Mesra, Pratiwi, et al., 2023).

Here are three previous research studies that could be relevance to this research. A Study on the Regulation of Virtual Currency Businesses in Major Jurisdiction. Conducted by the International Monetary Fund (IMF) (Citaristi, 2022). Examined the regulatory approaches adopted by various countries, including

Indonesia, towards virtual currency businesses (Suryadharma et al., 2023) such as cryptocurrency exchanges and wallet providers. Highlighted the need for robust consumer protection measures and international coordination in regulating the virtual currency market (Sudirjo et al., 2023).

Cryptocurrency Regulation in ASEAN: A Comparative Study. Carried out by the Asian Development Bank Institute (Lorensia, 2021). Compared and analyzed the regulatory frameworks for cryptocurrencies across different countries in the Association of Southeast Asian Nations (ASEAN), including Indonesia. Identified best practices and potential areas for harmonization of cryptocurrency regulations within the ASEAN region.

The Impact of Cryptocurrency Regulation on Consumer Adoption: Evidence from Indonesia (Zamzami, 2020). A research study conducted by a team of researchers from the University of Indonesia. Examined the effect of Indonesia's regulatory policies on consumer adoption and perception of cryptocurrencies. Highlighted the importance of clear and balanced regulations in promoting consumer confidence and fostering the growth of the cryptocurrency market in Indonesia.

While previous studies have provided valuable insights into the regulatory landscape for cryptocurrencies in Indonesia and the broader ASEAN region, there remains a gap in comprehensively analyzing the implications of the existing regulatory framework for consumer protection in Indonesia. Specifically, the following research gaps can be identified: Lack of in-depth analysis of the Trade Ministry Regulation No. 99/2018: While this regulation serves as the primary legal basis for cryptocurrency trading in



Indonesia, there is a need for a detailed examination of its provisions, strengths, and limitations in terms of consumer protection. Limited focus on emerging trends: Most existing research has focused on traditional cryptocurrency exchanges and trading platforms. However, there is a lack of analysis on the implications of Indonesia's regulatory approach for emerging trends, such as decentralized finance (DeFi) platforms, initial coin offerings (ICOs), and other innovative cryptocurrency-based services.

Insufficient evaluation of regulatory effectiveness: While previous studies have outlined the regulatory framework, there is a gap in critically evaluating the effectiveness of these regulations in protecting consumers from potential risks associated with cryptocurrency transactions, such as fraud, market manipulation, and cybersecurity threats.

Limited exploration of regulatory gaps and improvement areas: While some studies have identified potential areas for harmonization or best practices, there is a need for a comprehensive analysis of the gaps and weaknesses in Indonesia's current regulatory approach, as well as practical recommendations for improvement.

By addressing these research gaps, this analysis aims to provide a comprehensive and critical assessment of the current regulatory landscape in Indonesia, its implications for consumer protection, and actionable insights for policymakers and stakeholders to enhance the regulatory framework and safeguard consumer interests in the rapidly evolving cryptocurrency ecosystem.

Here are some novelties that this analysis could bring to the existing body of research on

cryptocurrency regulation and consumer protection in Indonesia: Comprehensive analysis of the Trade Ministry Regulation No. 99/2018. While previous studies have mentioned this regulation, this analysis could provide an in-depth examination of its specific provisions, their implications for consumer protection, and their effectiveness in practice. The analysis could identify potential gaps, ambiguities, or areas for improvement within the regulation itself.

Focus on emerging trends and innovative cryptocurrency applications: Most existing research has primarily focused on traditional cryptocurrency exchanges and trading platforms. This analysis could explore the implications of Indonesia's regulatory framework for emerging trends, such as decentralized finance (DeFi) platforms, initial coin offerings (ICOs), non-fungible tokens (NFTs), and other innovative cryptocurrency-based services and products.

Empirical evaluation of regulatory effectiveness: Moving beyond a theoretical analysis, this study could gather empirical data and insights from industry stakeholders, consumer advocacy groups, and regulatory bodies to evaluate the real-world effectiveness of Indonesia's regulatory approach in protecting consumer interests. This could involve analyzing cases of consumer complaints, fraud incidents, or other issues related to cryptocurrency transactions in Indonesia.

Comparative analysis with other jurisdictions: While some previous studies have compared Indonesia's regulatory approach with other ASEAN countries, this analysis could extend the comparative scope to include other major jurisdictions with advanced cryptocurrency regulations, such as the United States,



European Union, or Japan. This could provide valuable insights into best practices and potential areas for regulatory harmonization or adoption of successful measures from other countries.

Interdisciplinary approach: By combining legal analysis with economic, technological, and consumer behavior perspectives, this study could offer a holistic and multifaceted examination of the regulatory landscape and its implications. This interdisciplinary approach could yield novel insights and recommendations that address the complex challenges and trade-offs involved in regulating cryptocurrencies while protecting consumer interests.

By incorporating these novelties, this analysis could contribute fresh perspectives and actionable insights to the existing body of research, advancing the discourse on cryptocurrency regulation and consumer protection in Indonesia and potentially informing policymaking decisions in this rapidly evolving domain.

Research Method

To conduct a comprehensive juridical analysis of cryptocurrency regulation in Indonesia and its implications for consumer protection, this study will employ a qualitative research (Gentles et al., 2016) approach using literature study as the primary method. Literature study involves the systematic review and analysis of existing literature, including legal texts, academic publications, government reports, and industry analyses (Mohajan, 2018).

Data Collection:

The data collection process will involve gathering relevant literature from various sources, including: Legal texts: Indonesia's Trade Ministry Regulation No. 99/2018 on

Crypto-Asset Trading Policy and other relevant laws, regulations, and official government documents pertaining to cryptocurrency regulation. Academic publications: Peer-reviewed journal articles, research researchs, and book chapters related to cryptocurrency regulation, consumer protection, and the Indonesian legal framework.

Government and industry reports: Reports, studies, and analyses published by government agencies, regulatory bodies, international organizations, and industry associations on cryptocurrency regulation and consumer protection issues. Online sources: Reputable online sources, such as official websites of regulatory bodies, industry publications, and news articles, will be consulted to gather the latest developments and insights on the topic.

The collected literature will be systematically analyzed using qualitative content analysis techniques. The analysis will involve the following steps: Coding and categorization: The literature will be carefully reviewed, and relevant information will be coded and categorized into themes and subthemes related to the research objectives, such as regulatory provisions, consumer protection measures, emerging trends, and regulatory challenges.

Comparative analysis: The regulatory framework in Indonesia will be compared and contrasted with approaches taken by other jurisdictions, highlighting similarities, differences, and potential areas for harmonization or adoption of best practices.

Critical evaluation: The strengths, weaknesses, and effectiveness of Indonesia's regulatory approach in protecting consumer interests will be critically evaluated based on the literature review and analysis.



Synthesis and interpretation: The findings from the literature analysis will be synthesized and interpreted to draw meaningful conclusions and recommendations for enhancing the regulatory framework and consumer protection measures in Indonesia.

Trustworthiness and Rigor: To ensure the trustworthiness and rigor of the research, several strategies will be employed: **Triangulation:** Multiple sources of literature, including legal texts, academic publications, and industry reports, will be consulted to triangulate and validate the findings.

Peer review: The research process and findings will be subjected to peer review by legal experts, researchers, and industry professionals to enhance credibility and identify potential biases or gaps.

Audit trail: A detailed audit trail will be maintained, documenting the data collection process, coding decisions, and analytical procedures, to ensure transparency and reproducibility of the research.

Through this qualitative research approach using literature study, this analysis aims to provide a comprehensive and rigorous examination of the regulatory landscape for cryptocurrencies in Indonesia, its implications for consumer protection, and potential areas for improvement. The findings will contribute to the existing body of knowledge and inform policy discussions and decision-making processes in this rapidly evolving domain.

Result and Discussion

Juridical Analysis of Crypto Currency Regulation in Indonesia and Its Implications for Consumer Protection.

1. Regulatory Framework for Cryptocurrencies in Indonesia
The primary legislation governing

cryptocurrencies in Indonesia is the Trade Ministry Regulation No. 99/2018 on Crypto-Asset Trading Policy. This regulation provides a legal basis for the trade of cryptocurrencies in Indonesia and outlines the following key provisions:

a. Definition of Crypto-Assets

The regulation defines crypto-assets as digital commodities traded on a virtual currency exchange and acknowledges their potential as a means of payment and investment.

b. Licensing Requirements

One of the key provisions in the Trade Ministry Regulation No. 99/2018 is the mandatory licensing requirement for crypto-asset trading platforms operating in Indonesia. Specifically, the regulation mandates that any entity seeking to operate a virtual currency exchange must obtain a license from the Commodity Futures Trading Regulatory Agency (BAPPEBTI) under the Ministry of Trade.

The licensing process serves several important purposes:

- 1) Oversight and monitoring
 - a) By requiring trading platforms to obtain a license, the regulatory authority (BAPPEBTI) can exercise oversight and monitoring over these entities.
 - b) This helps ensure that only reputable and compliant platforms are allowed to operate, reducing the risk of fraudulent or unscrupulous actors entering the market.
- 2) Minimum standards and requirements:
 - a) The licensing process typically involves meeting certain minimum standards and requirements related to operational capabilities, risk



- management, cybersecurity, and consumer protection measures.
- b) These requirements help ensure that licensed platforms maintain a certain level of quality and safety for their users.
- 3) Legal certainty and consumer confidence:
- a) The licensing regime provides legal certainty for both trading platforms and consumers, as it establishes a clear regulatory framework and set of rules for operating in the crypto-asset market.
 - b) This legal certainty can help build consumer confidence and trust in licensed platforms, as they are perceived as being legitimate and regulated entities.

However, the licensing requirements also present some potential challenges and areas for consideration:

- 4) Regulatory burden and barriers to entry:
 - a) The licensing process may impose a significant regulatory burden on trading platforms, particularly smaller or newer entities, which could act as a barrier to entry and stifle innovation in the crypto-asset space.
 - b) Striking the right balance between ensuring consumer protection and fostering innovation will be crucial.
- 5) Potential for regulatory arbitrage:
 - a) With varying regulatory approaches across different jurisdictions, there is a risk of regulatory arbitrage, where trading platforms may seek to operate in jurisdictions with more lenient or lax licensing requirements.
 - b) This highlights the need for

international collaboration and harmonization of regulatory standards to prevent such arbitrage and ensure consistent consumer protection.

- 6) Ongoing monitoring and compliance:
 - a) The licensing process is not a one-time event; it requires ongoing monitoring and compliance by the regulatory authority to ensure that licensed platforms continue to meet the required standards.
 - b) This may necessitate significant resources and expertise within the regulatory body to effectively monitor and enforce compliance.

Overall, the licensing requirements in the Indonesian regulation represent a significant step towards establishing a regulated and monitored crypto-asset trading environment. However, their effectiveness will depend on the practical implementation, the ability to strike the right balance between consumer protection and innovation, and the coordination with other jurisdictions to prevent regulatory arbitrage and maintain consistent standards.

c. Consumer Protection Measures

One of the key objectives of the regulation is to safeguard the interests of consumers engaging in crypto-asset trading activities. To achieve this, the regulation mandates several consumer protection measures that licensed trading platforms must implement.

1) Segregated accounts:

Trading platforms are required to maintain separate accounts for customer funds and their own operational funds. This separation ensures that customer funds are protected and ring-fenced from the platform's operational risks or potential insolvency. It provides an additional layer of security for customers' assets and



reduces the risk of misappropriation or mismanagement of funds.

2) Risk management systems:

Licensed platforms must implement robust risk management systems to identify, monitor, and mitigate potential risks associated with crypto-asset trading. This includes measures such as setting appropriate trading limits, implementing risk controls, and conducting regular stress testing and risk assessments. Effective risk management systems help protect consumers from excessive risk exposure and potential losses due to market volatility or operational failures.

3) Transparent information disclosure:

The regulation requires trading platforms to provide transparent and accurate information to their customers. This includes disclosing fees, trading rules, risk factors, and other relevant information to enable consumers to make informed decisions. Transparent information disclosure promotes fairness, reduces information asymmetry, and empowers consumers to understand the risks and obligations associated with crypto-asset trading.

4) Dispute resolution mechanisms:

Trading platforms must establish fair and efficient mechanisms for resolving disputes between the platform and its customers. This could include internal complaint handling procedures, third-party mediation, or access to legal recourse in case of unresolved disputes. Robust dispute resolution mechanisms protect consumer rights and provide avenues for redress in case of grievances or conflicts.

These consumer protection measures aim to create a safer and more transparent trading environment for consumers engaging in crypto-asset transactions. By mandating segregated

accounts, risk management systems, information disclosure, and dispute resolution mechanisms, the regulation seeks to mitigate potential risks and empower consumers with the necessary safeguards and information to make informed decisions.

However, the effectiveness of these measures will depend on the practical implementation and enforcement by the regulatory authority. Continuous monitoring, auditing, and periodic reviews may be necessary to ensure that licensed trading platforms comply with these requirements and maintain high standards of consumer protection. Additionally, as the crypto-asset ecosystem evolves and new products or services emerge, the regulation may need to be updated or supplemented with additional consumer protection measures to address emerging risks or challenges.

d. Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Compliance

The regulation recognizes the potential risks of cryptocurrencies being exploited for illicit activities such as money laundering and terrorism financing. To address these concerns, the regulation mandates that licensed crypto-asset trading platforms must comply with Indonesia's AML/CFT regulations and report suspicious transactions to the relevant authorities.

1) AML/CFT Regulatory Framework:

The Indonesian regulatory framework for AML/CFT is primarily governed by the Law No. 8/2010 on the Prevention and Eradication of Money Laundering and the Law No. 9/2013 on the Prevention and Eradication of Terrorism Financing. These laws establish guidelines and obligations for financial service providers, including crypto-asset trading platforms, to implement AML/CFT measures and report



suspicious activities.

2) Know Your Customer (KYC) and Customer Due Diligence (CDD):

Licensed trading platforms are required to implement robust KYC and CDD processes to verify the identities of their customers and assess potential risks associated with customers and transactions. This includes collecting and verifying customer information, monitoring transactions, and maintaining records for regulatory compliance and reporting purposes.

3) Transaction Monitoring and Reporting: Trading platforms must have systems in place to monitor and detect potentially suspicious transactions that could be linked to money laundering, terrorism financing, or other illicit activities. Any suspicious transactions must be reported to the Indonesian Financial Transaction Reports and Analysis Center (PPATK), which serves as the country's financial intelligence unit.

4) Employee Training and Internal Controls:

Crypto-asset trading platforms are expected to provide adequate training to their employees on AML/CFT regulations, policies, and procedures. They must also implement internal controls and risk-based approaches to ensure compliance with AML/CFT requirements.

Compliance with AML/CFT regulations is crucial for maintaining the integrity of the crypto-asset ecosystem and preventing its exploitation for illegal activities. By mandating these requirements, the regulation aims to create a safer and more transparent trading environment, promoting consumer confidence and protecting the broader financial system from potential risks associated with money laundering and terrorism financing.

However, the effectiveness of these measures will depend on the practical implementation by trading platforms, the availability of robust monitoring and reporting systems, and the coordination between regulatory authorities and financial intelligence units. As the crypto-asset market evolves and potential risks emerge, the AML/CFT framework may need to be updated and enhanced to keep pace with new trends and typologies.

2. Implications for Consumer Protection

The Indonesian regulatory framework for cryptocurrencies has both positive and negative implications for consumer protection:

Positive Implications

a. Legal Certainty

One of the key positive implications of the Trade Ministry Regulation No. 99/2018 is the legal certainty it provides for crypto-asset trading activities in Indonesia. Prior to this regulation, the legal status of cryptocurrencies and crypto-asset trading platforms was ambiguous, operating in a regulatory gray area. The introduction of this regulation brings much-needed clarity and legitimacy to the industry, benefiting both businesses and consumers.

1) Legitimacy for Crypto-Asset Trading Platforms:

The regulation establishes a licensing regime for crypto-asset trading platforms, granting them legal recognition and legitimacy as regulated entities. This legitimacy can help attract more reputable players to the market, as they can now operate within a clear legal framework and comply with established rules and standards.

2) Reduced Risks for Consumers:

By providing legal recognition to licensed trading platforms, the regulation helps reduce the risks associated with unregulated or illegal



platforms, which may engage in fraudulent or unscrupulous practices. Consumers can have greater confidence in licensed platforms, knowing that they are subject to regulatory oversight and must adhere to certain standards and requirements.

3) Fostering Trust and Adoption:

Legal certainty can help foster trust among consumers and facilitate wider adoption of crypto-assets for legitimate purposes, such as investment or payment transactions. When consumers perceive the industry as regulated and legitimate, they may be more willing to engage with and explore the opportunities offered by crypto-assets.

4) Enabling Regulatory Oversight and Consumer Protection:

The legal recognition of crypto-asset trading platforms enables regulatory authorities to exercise effective oversight and enforce consumer protection measures outlined in the regulation. Without legal certainty, it would be challenging for regulators to monitor and regulate the industry, potentially leaving consumers vulnerable to risks and malpractices.

However, it is important to note that legal certainty alone is not a guarantee of consumer protection. The effectiveness of the regulation will depend on robust implementation, enforcement, and continuous adaptation to address emerging risks and challenges in the rapidly evolving crypto-asset landscape.

Regulators must ensure that licensed trading platforms strictly adhere to the consumer protection measures outlined in the regulation, such as maintaining segregated accounts, implementing risk management systems, and providing transparent information disclosure. Additionally, ongoing monitoring, auditing, and periodic reviews may be necessary to

ensure compliance and maintain high standards of consumer protection.

Overall, the legal certainty provided by the Indonesian regulation is a crucial step towards creating a safer and more transparent environment for crypto-asset trading activities, fostering trust among consumers, and enabling effective regulatory oversight to protect consumer interests.

b. Licensing Requirements

The licensing regime established by the Trade Ministry Regulation No. 99/2018 is a crucial component of the consumer protection framework for the crypto-asset industry in Indonesia. By mandating that trading platforms obtain a license from the Commodity Futures Trading Regulatory Agency (BAPPEBTI), the regulation aims to ensure that only reputable and compliant entities can operate in the market, thereby safeguarding consumer interests.

1) Screening and Vetting Process:

The licensing process involves a thorough screening and vetting of trading platform operators, assessing their operational capabilities, financial resources, risk management practices, and compliance with relevant regulations. This screening process helps weed out potentially unscrupulous or undercapitalized entities that may pose risks to consumers, such as mismanagement of funds or inability to meet obligations.

2) Minimum Standards and Requirements:

To obtain a license, trading platforms must meet certain minimum standards and requirements set by the regulator. These may include cybersecurity measures, segregation of client funds, implementation of robust internal controls, and adherence to anti-money laundering (AML) and combating the financing



of terrorism (CFT) regulations. By mandating these minimum standards, the regulation ensures that licensed platforms maintain a certain level of operational integrity, security, and consumer protection measures.

3) Ongoing Monitoring and Compliance:

The licensing regime allows regulatory authorities to exercise ongoing monitoring and oversight of licensed trading platforms. Platforms are required to maintain compliance with regulatory requirements and are subject to periodic audits or inspections. This ongoing monitoring helps ensure that consumer protection measures are consistently implemented and that any violations or non-compliance issues are promptly addressed.

4) Legal Recourse and Accountability:

The licensing regime provides a legal framework for holding trading platforms accountable for any misconduct or violations of regulatory requirements. In cases of non-compliance, regulators can impose sanctions, fines, or revoke licenses, providing a deterrent and legal recourse for consumer protection. Consumers can have greater confidence in licensed platforms, knowing that there are mechanisms in place to hold them accountable and seek redress in case of grievances or violations.

However, it is important to note that the effectiveness of the licensing regime depends on the robustness of the screening process, the clarity and appropriateness of the minimum standards and requirements, and the capacity of regulatory authorities to effectively monitor and enforce compliance. Inadequate resources, lack of expertise, or regulatory capture could undermine the intended consumer protection benefits of the licensing requirements. Additionally, as the crypto-asset industry evolves and new products, services, or business

models emerge, the licensing requirements may need to be periodically reviewed and updated to ensure they remain relevant and address emerging risks or challenges.

Overall, the licensing requirements in Indonesia's regulation aim to create a safer and more trustworthy environment for consumers by ensuring that only qualified and compliant trading platforms can operate, while providing a legal framework for accountability and ongoing oversight to protect consumer interests.

c. Consumer Protection Measures

1) Segregated Accounts:

The requirement for licensed trading platforms to maintain segregated accounts for customer funds and operational funds is a crucial consumer protection measure. By separating customer assets from the platform's own funds, this measure helps protect customer funds from being commingled or misused for the platform's operational expenses or other purposes. In the event of a platform's insolvency or bankruptcy, segregated accounts ensure that customer funds remain isolated and can be returned to their rightful owners.

2) Risk Management Systems:

The regulation mandates that trading platforms implement robust risk management systems to identify, monitor, and mitigate potential risks associated with crypto-asset trading. Effective risk management systems can help protect consumers from excessive risk exposure, market volatility, and potential losses due to operational failures or cyber threats. These systems may include measures such as setting trading limits, implementing risk controls, conducting stress testing, and maintaining adequate capital reserves.

3) Transparent Information Disclosure:

The requirement for trading platforms to provide transparent and accurate information to



customers is crucial for empowering consumers to make informed decisions. By disclosing fees, trading rules, risk factors, and other relevant information, platforms promote fairness, reduce information asymmetry, and enable consumers to understand the risks and obligations associated with crypto-asset trading. Transparent disclosure practices can help build trust and confidence in the regulated crypto-asset market.

4) Dispute Resolution Mechanisms:

The regulation mandates that trading platforms establish fair and efficient mechanisms for resolving disputes between the platform and its customers. These mechanisms may include internal complaint handling procedures, third-party mediation, or access to legal recourse in case of unresolved disputes. Robust dispute resolution mechanisms protect consumer rights and provide avenues for redress, ensuring that consumers have a means to seek remedies in case of grievances or conflicts with trading platforms.

These consumer protection measures aim to create a safer and more transparent trading environment for consumers engaging in crypto-asset transactions. By mandating segregated accounts, risk management systems, information disclosure, and dispute resolution mechanisms, the regulation seeks to mitigate potential risks, empower consumers with necessary information, and provide avenues for recourse in case of issues.

However, the effectiveness of these measures depends on robust implementation and enforcement by regulatory authorities. Continuous monitoring, auditing, and periodic reviews may be necessary to ensure that licensed trading platforms comply with these requirements and maintain high standards of consumer protection. Additionally, as the

crypto-asset ecosystem evolves and new products or services emerge, the regulation may need to be updated or supplemented with additional consumer protection measures to address emerging risks or challenges.

d. AML/CFT Compliance

The inclusion of AML/CFT compliance requirements in the regulation is a crucial step in mitigating the risks associated with the potential misuse of crypto-assets for illicit activities, such as money laundering and terrorism financing. By mandating that licensed trading platforms comply with Indonesia's AML/CFT regulations and report suspicious transactions, the regulation aims to create a safer and more secure trading environment for legitimate consumers.

1) Preventing Criminal Exploitation:

AML/CFT measures help prevent the exploitation of crypto-asset trading platforms by criminal organizations or individuals for money laundering, terrorist financing, or other illicit activities. By implementing robust Know Your Customer (KYC) and Customer Due Diligence (CDD) procedures, trading platforms can better identify and mitigate the risks associated with suspicious or high-risk customers or transactions.

2) Maintaining Market Integrity:

Compliance with AML/CFT regulations helps maintain the integrity of the crypto-asset market by deterring illicit activities and promoting transparency. When consumers perceive the market as regulated and free from criminal influences, they are more likely to have confidence in engaging with crypto-assets for legitimate purposes, such as investment or payment transactions.

3) Protecting Legitimate Consumers:

By effectively implementing AML/CFT



measures, trading platforms can better detect and prevent suspicious transactions, protecting legitimate consumers from potential risks associated with criminal activities. Consumers can have greater confidence that the platforms they are using are actively working to mitigate the risks of money laundering, terrorism financing, and other illicit activities.

4) Facilitating International Cooperation: AML/CFT compliance aligns Indonesia's crypto-asset regulation with international standards and best practices, facilitating cooperation and information-sharing with other jurisdictions in combating transnational financial crimes. This cooperation can help strengthen the overall integrity of the global crypto-asset ecosystem and enhance consumer protection on a broader scale.

However, the effectiveness of AML/CFT compliance measures depends on robust implementation by trading platforms, effective monitoring and supervision by regulatory authorities, and collaboration with financial intelligence units and law enforcement agencies. Inadequate resources, lack of expertise, or regulatory loopholes could undermine the intended benefits of these measures. Additionally, as the crypto-asset industry continues to evolve and new typologies of money laundering or terrorist financing emerge, the AML/CFT framework may need to be regularly updated and enhanced to address emerging risks and vulnerabilities.

Overall, the AML/CFT compliance requirements in Indonesia's crypto-asset regulation are an essential component of the consumer protection framework, aimed at safeguarding the integrity of the market, preventing criminal exploitation, and fostering a safer and more secure trading environment for legitimate consumers.

3. Negative Implications

a. Limited Scope

While the Trade Ministry Regulation No. 99/2018 provides a legal framework for regulating crypto-asset trading platforms, its scope is primarily focused on these traditional centralized exchanges. However, the crypto-asset ecosystem is rapidly evolving, with the emergence of new products, services, and decentralized models that may not be adequately covered by the current regulation.

1) Decentralized Finance (DeFi) Platforms:

The regulation does not explicitly address decentralized finance platforms, which enable peer-to-peer lending, borrowing, and other financial services without intermediaries. As DeFi platforms gain traction, the lack of a clear regulatory framework could leave consumers vulnerable to potential risks associated with these platforms, such as smart contract vulnerabilities, liquidity issues, or lack of recourse mechanisms.

2) Initial Coin Offerings (ICOs) and Token Sales:

The regulation does not provide specific guidelines or requirements for initial coin offerings (ICOs) or other forms of token sales, which have emerged as a popular fundraising mechanism in the crypto-asset space. Without clear regulations governing ICOs, consumers may be exposed to potential risks, such as fraudulent or misleading offerings, lack of investor protection, or market manipulation.

3) Non-Fungible Tokens (NFTs) and Digital Collectibles:

The regulation does not address the growing market for non-fungible tokens (NFTs) and digital collectibles, which have unique



properties and use cases distinct from traditional cryptocurrencies. Consumers engaging in NFT trading or purchases may face risks related to authenticity, ownership rights, and lack of standardized practices or regulations.

4) Emerging Technologies and Use Cases: As blockchain technology and crypto-assets continue to evolve, new and innovative use cases and applications may emerge, such as decentralized autonomous organizations (DAOs), tokenized real-world assets, or blockchain-based gaming and virtual worlds. The current regulation may not be equipped to address the consumer protection challenges associated with these emerging technologies and use cases.

To effectively protect consumers in the rapidly evolving crypto-asset ecosystem, Indonesia's regulatory framework may need to be expanded and updated to address these new developments. This could involve developing specific regulations or guidelines for DeFi platforms, ICOs, NFTs, and other emerging products or services, while ensuring flexibility to accommodate future innovations. Additionally, collaboration and coordination with other jurisdictions and international organizations could help develop consistent and harmonized regulatory approaches, preventing regulatory arbitrage and ensuring comprehensive consumer protection across borders.

Failure to address the limited scope of the current regulation may result in regulatory gaps, leaving consumers vulnerable to potential risks associated with unregulated or inadequately regulated aspects of the crypto-asset ecosystem. Continuous monitoring and adaptation of the regulatory framework will be crucial to maintain effective consumer protection in this

rapidly evolving space.

b. Potential Overregulation

While regulations are necessary to protect consumers and mitigate risks like fraud and money laundering, excessive regulation can stifle innovation and growth of the crypto industry. Some potential concerns around overregulation include:

1) Stifling Innovation

Overly restrictive regulations can make it difficult for crypto startups and businesses to operate and innovate in Indonesia. This could hamper the development of potential technological solutions and use cases utilizing blockchain/crypto.

2) Hindering Adoption

Burdensome compliance requirements and approvals for crypto businesses could discourage adoption by making it harder for exchanges, wallets, and other services to operate in Indonesia.

3) Driving Activities Underground

Draconian regulation may force some crypto activities underground into unregulated gray/black markets, undermining consumer protection entirely.

4) Losing Competitive Edge

If regulations are too strict compared to other jurisdictions, Indonesia risks losing its competitive edge as crypto businesses may choose to base themselves elsewhere with more favorable regulatory climates.

5) Regulatory Overreach

There are concerns that regulations may extend too broadly into areas like dictating protocols, features etc. which could be overstepping and hazardous to the decentralized nature of crypto.



To balance protection and innovation, Indonesian regulators should aim to create an enabling framework based on risk-based principles rather than restrictive policies. This could involve guided self-regulation by industry, proportionate licensing, regular regulatory sandboxes, and capacity building.

- 6) Ultimately, the goal should be to nurture crypto innovation responsibly without compromising Indonesia's vision of establishing itself as a regional crypto hub. Consultative policy-making involving all stakeholders is key to avoiding potential overregulation.

c. Lack of Clarity

Lack of clarity and coherence in regulations can create significant uncertainties and challenges for businesses, consumers and regulators themselves. Some key areas where lack of clarity is evident in Indonesia's crypto regulations include:

1) Asset Classification

There seems to be some inconsistency in how cryptocurrencies are classified - as commodities by Bank Indonesia but as tradable assets by Bappebti. This lack of a clear unified definition can create confusion.

2) Regulatory Scope and Mandate

With multiple regulators like BI, Bappebti, OJK involved, there is ambiguity around which body is responsible for regulating which crypto use-cases like exchanges, payments, ICOs etc.

3) Tax Treatment

There is lack of clarity on the tax treatment of crypto trading profits, mining income, derivatives and other activities. This creates uncertainties for businesses and investors.

4) Consumer Protection

While regulations specify some requirements for exchanges, detailed guidelines around consumer rights, complaints redressal, dispute resolution etc. are still lacking.

5) Regulatory Applicability

There is lack of clarity on which rules apply to various entities like foreign exchanges serving Indonesians, P2P platforms, cloud mining services etc.

Providing a clear, coherent and collaborative regulatory regime will be crucial for both protecting consumers' interests while allowing the crypto industry to innovate responsibly in Indonesia.

Conclusion

The rise of cryptocurrencies has presented Indonesia with both opportunities for innovation and challenges in safeguarding consumer interests. The country has taken proactive steps by implementing regulations around trading cryptocurrencies as commodities on dedicated exchanges. However, the current regulatory landscape still has certain gaps and shortcomings that need to be addressed to elevate consumer protection standards. Key issues include lack of comprehensive data protection laws, absence of clear liability and dispute resolution mechanisms, and limited regulatory capacity.

Moving forward, Indonesia should consider developing a broader, more comprehensive regulatory framework that covers all aspects of cryptocurrencies beyond just trading. This can involve introducing stringent capital and security requirements for exchanges, constituting an independent regulatory body with robust oversight and enforcement capabilities, and rolling out investor education initiatives. At the same time, policy makers need to strike a balance between protective



regulations and not overreaching to the extent of stifling innovation in the crypto and blockchain space. Excessive compliance burdens may drive activities underground, diminish Indonesia's competitive edge, and undermine its vision of becoming a regional crypto hub.

Therefore, the optimal approach would be to create an enabling regulatory regime based on risk-based principles developed through extensive consultation with all stakeholders - industry, investors, legal experts and consumer interest groups. Measures like regulatory sandboxes and guided self-regulation can foster responsible innovation. Providing legal clarity by unified classification of crypto assets, delineating regulatory roles, issuing detailed guidelines covering consumer rights, taxation etc. is also crucial. This will reduce uncertainties, aid adoption, and ensure coherent enforcement.

Overall, while Indonesia has made laudable initial strides, more nuanced and comprehensive regulation elevating consumer protection standards without inhibiting innovation is still needed in this rapidly evolving domain. Getting this balance right will be key to realizing the potential of cryptocurrencies and blockchain for all stakeholders.

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