

# Study on the Legal Adaptation of Digital Asset Trading and Securities Laws

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## ABSTRACT

This thesis discusses the connection between digital asset trading and securities law, and analyzes the role and importance of securities law in digital asset trading. As an emerging market, digital asset trading involves the issues of investor protection, information disclosure, and compliance of trading platforms. Securities law provides legal protection and regulatory framework for digital asset trading by regulating market behavior, protecting investors' rights and interests and maintaining market order. Investors should be aware of local securities laws and comply with compliance requirements to ensure the legality and safety of transactions. Regulators should actively follow up the market development and continuously improve the regulatory mechanism of digital asset trading to promote the healthy development of the market.

## KEYWORDS

Digital Asset Trading; Securities Law; Digital Asset Securities; Legal Adaptation; Investor Protection.

## 1. INTRODUCTION

With the rapid development of science and technology and the acceleration of the global digitalization trend, digital asset trading, as an emerging financial activity, has gradually become a hot topic around the world. Digital assets refer to non-monetary assets owned or controlled by a business or an individual that exist in the form of electronic data and are held for sale or in the process of being produced in the course of day-to-day activities (Jackson and Luu, 2023). The creation of digital assets is attributed to office automation, and digital assets have evolved on the basis of electronic payment systems. The concept of digital asset securities issuance is mainly derived from the concepts of initial token issuance and securities pass-through issuance, which is a process of public issuance of digital asset securities through blockchain technology in order to attract investors to invest in the issued digital asset securities and achieve the purpose of project financing for the issuer (Barson and Owusu, 2023).

The value of digital assets usually depends on factors such as their scarcity, uniqueness, market demand, and the reputation of the creator or owner. The trading of digital assets is usually carried out through blockchain technology or specific digital asset trading platforms. On April 10, 2020, the Opinions of the Central Committee of the Communist Party of China and the State Council on Constructing a More Perfect System Mechanism for Market Allocation of Factors recognized data as the fifth major factor of production after land, capital, labor and technology, which shows that, in the context of the digital economy era, the rapid development of the trading of digital assets brings great potential and opportunities, and also triggers a series of legal issues in the field of securities law. This shows that in the context of digital economy, the rapid development of digital asset trading has brought great potential and opportunities, and at the same time, it has also triggered a series of legal adaptation problems in the field of securities law. Under the background of rapid development of

digital asset transactions, how to adapt the existing securities law to digital asset transactions has become an important issue that needs to be discussed in depth.

This study adopts the combination of literature review method and empirical analysis method to study in-depth the legal adaptability of digital asset trading and securities law by collecting and analyzing relevant literature, regulations and practice cases. At the same time, this paper will combine theoretical analysis and practical experience to put forward possible paths and suggestions to solve the legal adaptability problem of digital asset transactions. The structure of this paper is divided into introduction, the emergence and characteristics of digital asset trading, the relationship between digital asset trading and traditional securities market, the analysis of the adaptability of the current securities law to digital asset trading, the legal adaptability of digital asset trading and the solution path and conclusion.

## **2. THE RISE AND CHARACTERIZATION OF DIGITAL ASSET TRADING, THE**

### **2.1. The Definition and Scope of Digital Asset Trading**

Digital assets are those owned or controlled by a business or individual, in the form of electronic data, that are held for sale or in the course of day-to-day activities. The production process of digital assets has been created by office automation. Thanks to office automation, digital assets have developed on the back of electronic payment systems, which have a foreseeable future (Moreaux and Mitrea, 2023). Digital asset transactions, on the other hand, refer to the activity of exchanging assets through the use of cryptography and distributed ledger technology (e.g., blockchain). Digital assets can include cryptocurrencies (e.g., Bitcoin, Ether, etc.), digital securities, pass-through assets, etc. The process of trading these assets usually takes place on decentralized digital asset exchanges or trading platforms.

### **2.2. The Rapid Growth of the Digital Asset Trading Market**

The digital asset trading market has experienced rapid growth over the past few years. With the popularization of cryptocurrencies and the gradual maturation of blockchain technology, the number of participants and the volume of transactions in the digital asset trading market have increased significantly (Wang et al., 2023).

The development of the digital asset trading market has benefited from the following factors. First, the development of blockchain technology has improved the security and transparency of digital asset trading, attracting more investors to participate in it. Second, digital assets provide a new way of investment, meet the demand of investors for diversified investment, and have high liquidity and flexibility (Copestake et al., 2023). Third, the digital asset trading market promotes financial innovation, such as smart contracts, decentralized finance and other emerging areas. Fourth, with the continuous emergence and popularization of digital assets such as digital currencies and digital securities, the market size of digital asset trading is also growing rapidly. Taking Bitcoin as an example, its global trading volume has grown from millions of dollars to hundreds of billions of dollars. Other digital assets such as Ether and Litecoin are also growing in volume.

### **2.3. Characteristics and Advantages of Digital Asset Trading**

Digital asset trading has the following characteristics. The first is decentralization. Digital asset transactions are usually carried out on decentralized trading platforms without the participation of intermediaries, which improves the efficiency and security of transactions. The second is globalization. The digital asset trading market is global in nature, allowing investors to trade anywhere, anytime, with no restrictions on borders. The third is high liquidity. The high liquidity of

the digital asset trading market enables investors to buy and sell digital assets quickly, improving the liquidity and flexibility of funds (Ning and Lu, 2021). Fourth, low transaction costs. Compared with traditional financial markets, digital asset trading tends to have lower transaction costs, reducing the costs of intermediate links.

The main advantages of digital asset trading are as follows. The first is to improve the efficiency of asset allocation. The digital asset trading market has enriched investors' choices, provided them with more diversified types of assets and trading tools, facilitated the optimal allocation of investment portfolios, and improved the efficiency of asset operation. The second is to promote financial innovation. Digital asset trading has given rise to a series of emerging financial derivatives, such as digital currency futures, digital asset options, etc., providing investors with more risk management tools and promoting the innovative development of the financial market. The third is to enhance financial inclusion. The lower threshold of digital asset trading can attract the participation of a wider group of investors, enhance the inclusiveness of the financial market, and allow more people to enjoy financial services. The fourth is to promote the convenience of cross-border transactions. Digital assets themselves have cross-border circulation characteristics, digital asset trading can effectively reduce the cost and time of cross-border transactions, and improve the efficiency of international capital flows. The fifth is to improve the pricing mechanism: the large number of participants in the digital asset trading market and the rich transaction data help to form a fairer and more transparent asset pricing mechanism, which improves the scientific nature of pricing.

The rise of digital asset trading and its features and advantages have had a profound impact on financial markets, while also posing a number of challenges and problems. In the following section, the relationship between digital asset trading and traditional securities markets will be explored in order to better understand the implications of digital asset trading for the legal adaptation of securities law (Bas et al., 2024).

### **3. THE RELATIONSHIP BETWEEN DIGITAL ASSET TRADING AND TRADITIONAL SECURITIES MARKETS**

#### **3.1. Digital Asset Trading Versus Traditional Securities Markets**

Digital asset trading differs significantly from traditional securities markets in a number of ways, and these differences have important implications for the relationship between digital asset trading and securities law.

First, the market for digital asset trading operates differently from traditional securities markets. Traditional securities markets are usually regulated and operated by centralized exchanges or other institutions, and the trading process needs to follow specific rules and procedures. On the other hand, most of the digital asset trading market adopts a decentralized approach, and trading activities are mainly carried out on the blockchain, where participants can directly conduct peer-to-peer transactions without the involvement of intermediaries.

Secondly, there are also differences in the composition of participants in digital asset trading. The traditional securities market mainly includes investors, issuers, stock exchanges, regulators and other types of participants. On the other hand, in the digital asset trading market, in addition to traditional investors and issuers, digital exchanges, digital asset wallet providers, smart contract developers and other emerging players are also involved.

In addition, the regulatory environment of digital asset trading is different from that of the traditional securities market. Due to the global and decentralized nature of digital asset trading, the regulation of cross-border trading, investor protection and market manipulation faces certain challenges. Regulators of traditional securities markets need to formulate new regulatory frameworks and policies for digital asset trading in order to adapt to the characteristics and development of digital asset trading.

### **3.2. The Relationship between Digital Asset Trading and Securities Laws**

There is a close relationship between digital asset trading and securities laws. Some assets in digital asset trading, such as digital securities, have characteristics similar to traditional securities and may therefore be subject to existing securities laws. In a number of jurisdictions, legal and regulatory measures have been introduced to address digital asset trading. These measures aim to ensure compliance, investor protection and market stability in digital asset trading. However, due to the emerging and innovative nature of digital asset trading, it is often difficult for existing securities laws to be directly applicable to digital asset trading, and there are certain legal adaptation issues.

The reason why digital asset trading needs to comply with the rules of securities law mainly stems from the intrinsic connection between the two. First of all, in essence, digital asset trading and traditional securities trading are both financial activities, involving the purchase and sale of assets. The difference is that digital assets have adopted new technologies such as blockchain, presenting more digital and decentralized characteristics.

However, both digital assets and traditional securities may be recognized as financial instruments and are therefore subject to regulatory oversight. The securities law, as the basic law regulating the securities market, contains principles and rules on information disclosure, anti-manipulation, investor protection, etc., which are to a large extent also applicable to digital asset trading. The purpose of doing so is to maintain the order of the financial market and protect the legitimate rights and interests of investors.

It is worth noting that digital asset transactions may differ in the application of some specific rules due to their technical characteristics. For example, the recording and authorization of digital assets is different from that of traditional securities, which requires regulators to adjust their regulatory policies appropriately according to the uniqueness of digital assets. At the same time, digital asset trading involves a number of regulatory areas, such as finance, science and technology, etc., which requires enhanced coordination among various regulatory authorities to form an effective regulatory system.

To address the above issues, a number of jurisdictions have begun to explore and develop specialized legal frameworks applicable to digital asset trading. These frameworks generally aim to provide clearer definitions, regulatory requirements and investor protection measures to promote compliance and healthy market development for digital asset trading. In addition, international organizations and regulators are actively researching and promoting regulatory standards and best practices for digital asset trading.

However, the issue of legal adaptation of digital asset transactions remains a complex topic that requires the concerted efforts of all parties, including legislators, regulators, industry participants and academics, in order to establish a legal framework and regulatory mechanism that is more adaptable to digital asset transactions.

## **4. FUTURE TRENDS IN DIGITAL ASSET TRADING**

The digital asset trading market is in the midst of rapid development and change. With technological advances, market maturity, and gradual improvement in regulation, digital asset trading will continue to usher in new opportunities and challenges (El-Din et al., 2022). The following are some of the future trends in digital asset trading.

Market diversification and asset growth. As digital asset trading becomes more popular and investor demand for different types of assets increases, more types of digital assets will emerge in the market. In addition to traditional cryptocurrencies such as Bitcoin and Ether, more types of digital securities, stablecoins, pass-through assets, etc. will emerge. This will increase investor choice and diversity and drive the development of the digital asset market.

The influx of institutional capital. As the digital asset market matures and regulation is gradually improved, institutional investors will enter the digital asset trading market more often. Traditional financial institutions, hedge funds, insurance companies and other institutions will begin to explore digital assets as part of their investment portfolios and participate in digital asset trading. The influx of institutional capital will bring more liquidity and capital to the digital asset market and promote the further development of the market.

The rise of decentralized trading platforms. Decentralized trading platforms will become an important part of the digital asset trading market. Compared with centralized exchanges, decentralized trading platforms have a greater degree of decentralization, and investors can trade directly through smart contracts without trusting the intermediary of centralized exchanges. Decentralized trading platforms provide higher security and privacy, and are in line with the concept of decentralized finance. As technology advances, the user experience and transaction speed of decentralized trading platforms will gradually improve, further promoting the development of decentralized trading platforms.

Application of cross-chain technology. With the development of different blockchain networks and the demand for interconnection and interoperability, cross-chain technology will become one of the important technologies for digital asset transactions. Cross-chain technology can realize the transfer and interaction of assets between different blockchains and improve the liquidity and interoperability of digital assets. Through cross-chain technology, investors can conduct asset transactions on different blockchain networks, expanding the scale and depth of the trading market.

The development of the digital asset derivatives market. As the digital asset market matures and investor demand increases, the digital asset derivatives market will flourish. Derivatives products such as digital asset futures, options, and exchange traded funds (ETFs) will gradually emerge. These derivatives products can provide more investment strategies and risk management tools, offering investors more choices and flexibility.

Environmental sustainability and regulatory compliance. As concerns about environmental sustainability continue to grow, digital asset exchanges are also facing environmental impact and sustainability challenges. The energy consumption of digital asset mining and exchanges will be at the center of attention. At the same time, regulatory compliance will continue to be strengthened to protect investors' interests, prevent market manipulation and combat illegal activities.

In summary, future trends in digital asset trading include market diversification and asset growth, the influx of institutional capital, the rise of decentralized trading platforms, the application of cross-chain technology, the development of the digital asset derivatives market, and environmental sustainability and regulatory compliance. These trends will drive the further maturation and development of the digital asset trading market, providing investors with more choices and opportunities. However, as the market develops, attention also needs to be paid to risk management, regulatory compliance and environmental sustainability to ensure the healthy development of the digital asset trading market.

## **5. A COMPREHENSIVE ANALYSIS OF THE LEGAL ADAPTATION OF DIGITAL ASSET TRADING TO SECURITIES LAWS**

### **5.1. The Scope of Application of the Securities Laws**

The securities law is the basic law regulating the activities of the securities market, and its scope of application is quite broad. It applies to all kinds of securities products, including traditional stocks, bonds, fund shares, etc., as well as emerging digital assets and other financial innovations, as long as they are recognized as falling within the scope of the definition of "securities", and their issuance and trading behaviors need to comply with the rules of the securities law. The object of adjustment of the securities law covers all kinds of participants in the securities market, such as securities issuers,

securities companies, securities exchanges, securities registration and settlement institutions, and so on. When these organizations carry out securities business, they are required to strictly comply with the provisions of the securities law on information disclosure, risk control, anti-money laundering, etc., the core content of which is to regulate the issuance and trading of securities, including public offering, directional offering, quotation offering and other securities issuance, as well as all kinds of securities trading on the stock exchange or over-the-counter market.

In the context of digital asset trading, some projects may be considered as securities and regulated under securities laws. The scope of application of securities laws usually covers digital assets with investment attributes, such as token offerings, crowdfunding and securitization. When engaging in digital asset trading, investors should be aware of local securities laws and ensure that their transactions comply with the relevant requirements.

## **5.2. Information Disclosure Requirements**

The information disclosure requirements of the securities law for digital asset issuing entities can be summarized as comprehensive, truthful and continuous. Firstly, the issuing entity needs to disclose in detail the basic information of the digital assets in the offering prospectus, including its technical structure, the purpose of issuance, the scale of issuance and other key information, so that investors can fully understand the fundamentals of the digital assets. Secondly, the specific contents of the issuance program, such as the pricing basis, issuance targets, issuance time, etc., also need to be disclosed truthfully to ensure that investors clearly understand the entire issuance process. In addition, the issuing entity should also fully reveal the various types of risks that digital assets may face, including technical risks, market risks, regulatory risks, etc., so that investors have a clear understanding of the relevant risks.

In addition to pre-issuance disclosure, securities laws also require digital asset issuing entities to disclose information on the operation of digital assets, price changes, material events and other information on an ongoing basis after the issuance. This ensures that investors have timely access to important information that may affect their investment decisions. Through these comprehensive, truthful and continuous disclosure requirements, the securities law aims to enhance the transparency of digital asset offerings and protect the legitimate rights and interests of investors.

It can be said that the information disclosure system is the core content of securities law regulating the issuance of digital assets. With the continuous development of the digital economy, the application and improvement of the securities law in this field will have an important impact on the standardized development of the digital asset market.

Securities laws require digital asset issuers to provide adequate disclosure so that investors can fully understand the background, risk factors, financial position and management team of the project. The purpose of information disclosure is to reduce information asymmetry and the risk of manipulation, and to help investors make informed investment decisions. Investors should carefully study the relevant disclosure documents and fully assess the potential risks and rewards of a project before engaging in digital asset trading.

## **5.3. The Regulatory Responsibilities of Trading Platforms**

As an important infrastructure for digital asset trading, the responsibilities and obligations of digital asset trading platforms are also strictly regulated by securities laws.

First, trading platforms need to establish a sound risk management system. This includes reviewing the digital assets and trading entities accessing the platform to ensure that they meet the requirements of the relevant laws and regulations; at the same time, they should formulate contingency plans to prevent and resolve all kinds of operational risks. Only by establishing a sound risk management mechanism can the trading platform maintain the stable operation of the entire market.

Secondly, the trading platform must effectively fulfill the obligation of information disclosure. On the one hand, to comprehensively and timely disclosure of trading rules, fees and other platform operating information, enhance market transparency; on the other hand, but also timely release of trading quotes, major events and other information to ensure that investors can timely grasp the important information that may affect their investment decisions.

In addition, trading platforms should also establish investor protection mechanisms. This includes the establishment of complaint channels, proper handling of investor complaints; the development of compensation programs to protect the legitimate rights and interests of investors; supervision and disposal of illegal acts to maintain market order. Only by effectively fulfilling these responsibilities, the trading platform to win the trust of investors.

Some countries and regions regulate the business practices of digital asset trading platforms and require them to comply with specific laws and regulations. This includes platform registration and licensing requirements, anti-money laundering measures, and security protection of user funds. Regulation of digital asset trading platforms by regulatory bodies can improve market transparency and investor confidence.

#### **5.4. Compliance Requirements and Investor Protection**

The first is compliance requirements. As a financial infrastructure, digital asset trading platforms must strictly comply with securities law and other relevant laws and regulations. The establishment and operation of the platform itself must meet the statutory conditions and obtain the corresponding regulatory licenses. This involves the platform's registered capital, internal management system, technical architecture and other aspects.

Platforms should establish sound internal control systems for anti-money laundering and counter-terrorist financing to prevent various types of compliance risks. This includes conducting due diligence on transaction subjects and monitoring suspicious transaction activities. Platforms should disclose timely and accurate information on trading rules, fees and charges, and major issues to ensure market transparency. The platform should implement an investor suitability management system to limit the number of participants in certain high-risk investments.

Second is investor protection. As a centralized place for digital asset trading, the trading platform shoulders the great responsibility of protecting the legitimate rights and interests of investors. The establishment of investor education and risk alert mechanism to help investors understand the characteristics and risks of digital assets. Formulate investor complaint handling and compensation programs to effectively safeguard the legitimate rights and interests of investors. Monitor and deal with illegal behavior and maintain market order. Setting up the functions of transaction summarization and fund escrow to ensure the fairness and impartiality of transactions.

Compliance requirements in digital asset trading are to ensure the legality and compliance of transactions. Securities laws provide for investor protection measures, including anti-fraud provisions, insider trading prohibitions and investor redress mechanisms. Investors should remain vigilant to avoid becoming victims of illegal manipulation or fraud, and be aware of their remedies in the event of disputes.

#### **5.5. Regulatory DEVELOPments and MARKET OPPORTUNITIES**

First, let's talk about regulatory developments. In recent years, governments and regulators have been stepping up their efforts to regulate the digital asset trading market, mainly in the following areas.

Construction of laws and regulations. Many countries have introduced digital asset-related laws and regulations to clarify regulatory requirements and legal responsibilities. For example, the revision of securities laws and anti-money laundering laws has provided a legal basis for digital asset transactions.

Regulatory system construction. Some countries and regions have set up specialized digital asset regulatory agencies responsible for policy formulation, licensing and daily supervision. The institutionalization of the regulatory level is in progress.

Improvement of regulatory measures. The regulatory authorities have introduced a series of targeted regulatory measures, such as anti-money laundering, anti-monopoly, investor suitability and other requirements, to continuously improve the relevance and effectiveness of regulation.

This series of regulatory actions are aimed at standardizing the order of the digital asset market, preventing systemic risks and protecting the interests of investors. It can be said that digital assets are developing from a relatively free field to a more standardized and orderly direction.

The regulatory environment for digital asset trading is constantly evolving. Regulatory requirements for digital assets in various countries and regions may be adjusted continuously in line with market developments and technological advances. Investors should pay close attention to regulatory developments and keep abreast of the latest developments in the digital asset trading market. At the same time, regulatory changes may also bring market opportunities, which investors should carefully evaluate and seize appropriate investment opportunities.

## 6. CONCLUSION

As a new thing, the future development of digital asset securities issuance still needs to be verified by time. However, from the regulatory experience in the last decade, more and more countries are joining the regulation of digital asset securities issuance, especially the United Kingdom and the United States, which put it under the framework of the securities law, so we should still maintain the attitude of promoting the good growth of digital asset securities issuance by law and regulation, instead of prohibiting and suppressing it, especially in the development of financial innovations, and seizing the opportunity of innovations for the development of the country, which is of great importance to the development of the country. The importance of seizing innovative opportunities for national development is also self-evident.

Digital asset trading is closely related to securities laws, which play an important role in protecting investors' rights and interests, maintaining market order and promoting sustainable development in the digital asset market. Investors should be fully aware of local securities laws and comply with relevant compliance requirements. At the same time, regulators should actively follow up the market development and timely adjust and improve the regulatory framework for digital asset trading to adapt to the increasingly complex and innovative market environment. Only through compliance and effective regulation can the digital asset trading market develop in a healthy and orderly manner and create more opportunities and returns for investors and market participants. With the continuous evolution of digital asset trading and the improvement of securities laws, we believe that digital asset trading will become an important part of the financial sector in the future and bring new vitality and opportunities for economic and social development.

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