

THE VIRTUAL
CURRENCY
REGULATION
REVIEW

FIFTH EDITION

Editor
Paul Anderson

THE LAWREVIEWS

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ITALY

Raffaele Lener, Salvatore L Furnari, Niccolò Lorenzotti, Antonio Di Ciommo and Roberto A Lener¹

I INTRODUCTION TO THE LEGAL AND REGULATORY FRAMEWORK

The first attempt to regulate distributed ledger technology (DLT) and cryptoassets by the Italian legislator was through Article 8 *ter* of Law Decree No. 135 of 14 December 2018, which provides the definition of smart contracts and DLT.

Paragraphs 1 and 3 of Article 8 *ter* of Law Decree No. 135 state that:

1. [DLTs] are defined as 'technologies based on distributed register' technologies and computer protocols that use shared, distributed, replicable ledgers, simultaneously accessible and architecturally decentralised on a cryptographic base such as to allow registration, validation, updating and archiving of data both in clear text and further protected by cryptography verifiable by each participant, but which is not alterable and not editable.

...

3. The storage of an IT document through the use of technologies based on distributed registers produces the legal effects of electronic timestamps referred to in Article 41 of Regulation (EU) No. 910/2014.

Furthermore, Paragraph 2 of Article 8 *ter* of Law Decree No. 135 defines a smart contract as:

a computer program that operates on technologies based on distributed registers and whose execution automatically binds two or more parties and produces effects predefined by the parties prior to execution. Smart contracts are deemed to satisfy the written form requirement provided that users are identified through an identification process that is compliant with the guidelines issued by the Agency for Digital Italy.

The Italian legislature instructed the Agency for Digital Italy (AgID) to issue a regulation implementing this definition, to identify the specific standards that DLTs must adopt to produce the effects of an electronic timestamp and to set out the identification process smart contracts should adopt to fall within the scope of Article 8 *ter* of Law Decree No. 135. Nonetheless, at present, no such regulation has yet been issued by AgID.

¹ Raffaele Lener is the named partner, Salvatore L Furnari is a lawyer and a chartered accountant, Niccolò Lorenzotti is an associate and Antonio Di Ciommo is a trainee lawyer at Lener & Partners. Roberto A Lener is an associate at VERTEQ Capital.

The most important categories of cryptoassets that have been identified are investment tokens (which include equity, debt and security tokens), utility tokens and cryptocurrencies (which also include stablecoins).²

Investment tokens are cryptoassets that assign to their holders economic or governance rights over the issuing company. Investment tokens confer on their holder a direct right in relation to the company. Those rights are usually divided into economic rights (i.e., the right to dividends) and administrative rights (i.e., the right to vote in the general assembly). From this point of view, investment tokens could be properly considered tokenised versions of securities. Furthermore, they can be sub-classified as equity tokens, if the owners are entitled to rights similar to those usually assigned to shareholders; debt tokens, if they resemble debt securities; and security tokens, a residual category that includes all the other tokens that have been officially offered to the public as a tokenised version of a financial security, in compliance with the relevant regulatory framework.

Utility tokens are cryptoassets that provide the holder with a functional utility, such as the right to obtain a product or, more commonly, the right to access a specific service or even a simple discount on a product or service. From a legal perspective, utility tokens can be seen as the DLT representation of a ‘consumer right’ with regard to a product offered by the issuer.

Finally, cryptocurrencies are cryptoassets whose function is to be used to pay for services or to acquire other tokens. Benefiting from decentralisation, these currencies differ from fiat currencies as they are neither certified nor supported by central financial institutions.

Cryptocurrencies are usually used as payment instruments to the extent that they are recognised as such by the parties to a transaction. For this reason, cryptocurrencies are commonly depicted as ‘private payment instruments’ or, better, as ‘private currencies’ whose value depends only on the laws of offering and demand within their relevant markets. Stablecoins are a sub-category of cryptocurrency and are ‘programmed’ to maintain a ‘stable’ price, which is linked to a specific fiat currency.

After a public consultation conducted between 2019 and 2020, CONSOB stated in its final report of January 2020 that the use of DLTs is not an element that per se defines the category of cryptoassets, since some types (e.g., investment tokens) may fall within the scope of other existing regulations.³

For instance, as specifically emphasised by CONSOB, investment tokens could be deemed to be financial instruments, with the consequence that Italian regulations on financial instruments and financial products would be triggered. Therefore, the offering of cryptoassets that constitute financial products would entail advance publication of a corresponding authorised prospectus.

Furthermore, it has to be ascertained whether cryptocurrencies and stablecoins may constitute an issuance of electronic money or of payment instruments under banking and electronic money laws and regulations.

Finally, it is worth anticipating that utility tokens generally fall outside the scope of both financial and banking law regulations, since they represent neither a payment

2 See Hacker, P and Thomale, C, *Crypto-Securities Regulation: ICOs, ‘Token Sales and Cryptocurrencies under EU Financial Law’* in *European Company and Financial Law Review*, 2018, p. 12 and also Furnari, SL and Lener, RA, ‘Contributo alla qualificazione giuridica dell’offerta al pubblico di utility token (anche) alla luce della proposta di regolamento europeo sulle cripto-attività’ (forthcoming), in *Bocconi Legal Paper*, 16, 2021.

3 CONSOB, *Final Report on Initial Coin Offerings and Crypto-Assets Exchanges*, 2 January 2020, p. 2.

instrument nor a form of financial investment. The issuance of utility tokens in Italy can be carried out without either the publication of a prospectus or the need to comply with specific requirements (which are lacking at present). However, this does not exempt cryptoassets (and their holders) from the scope of the anti-money laundering (AML) regime.

II SECURITIES AND INVESTMENT LAWS

i Overview of applicable Italian securities and investment laws

As a preliminary remark, no definition and no specific rules on cryptoassets have been provided under Italian securities and investment laws. Their ‘versatility’ implies the need to qualify each of them in light of the general definitions of financial instruments and financial products provided under Legislative Decree No. 58 of 24 February 1998 (the Consolidated Financial Act).⁴

Financial instruments are defined under Article 1, Paragraph 2, of the Consolidated Financial Act as ‘the list of instruments specified under [its] Annex I, Section C’.⁵

Within this list, the definition of transferable securities has a particular relevance. As provided in Article 1, Paragraph 1 *bis* of the Consolidated Financial Act, transferable securities are defined as securities that may be negotiated in a trading venue, such as:

- a* shares and other comparable instruments issued by corporations, partnerships or similar entities, including their deposit certificates;
- b* bonds and other debt instruments, including their deposit certificates; and
- c* any other transferable security that allows the purchase or sale of securities under (a) and (b) or that permits a prompt settlement of transactions that are benchmarked on currencies, interest rates, earnings, commodities or other indexes or measurements.

Furthermore, as regards the qualification of cryptoassets under the security and investment regulations, an important role is also played by the domestic definition of the term ‘financial product’ provided under Article 1, Paragraph 1, letter (u) of the Consolidated Financial Act. Here, in fact, financial products are broadly defined as ‘financial instruments and any other form of investment characterised by a financial nature’.

ii Qualification of cryptoassets as financial instruments

To be qualified as financial instruments, cryptoassets may more easily fall under the definition of transferable securities. In particular, to be qualified as transferable securities, cryptoassets should:

- a* be negotiable on capital markets;
- b* be standardised; and

⁴ https://www.consob.it/web/consob-and-its-activities/laws-and-regulations/documenti/english/laws/fr_decree58_1998.htm.

⁵ This article implements MiFID II and the list of Annex I, Section C of the Consolidated Financial Act is the same as that provided by MiFID II in its Annex I, Section C. In particular, financial instruments are ‘(1) Transferable securities; (2) Money-market instruments; (3) Units in collective investment undertakings; . . . (11) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC’ and various types of derivative contracts (listed under Nos. 4–10 of Annex I, Section C).

c incorporate the rights conferred on the holder by ‘traditional’ shares, bonds or other similar contracts.⁶

This is consistent with CONSOB’s statement in its final report of January 2020.⁷ In this document, CONSOB pointed out that the Italian definition of financial instruments cannot be amended to include cryptoassets, since the definition is provided at the EU level under MiFID II. Nonetheless, CONSOB pointed also out that:

the interpretative criteria for applying the required distinction may be found in the European legislation, where a catalogue of categories of financial instruments is codified that enables a judgment of comparability to identify the hypothesis in which the characteristics of a cryptoasset (as well as of the associated operations) lead us to consider the existence of elements of strict analogy with regard to those that commonly characterise the categories of financial instruments listed in the European legislation.⁸

According to the classification of cryptoassets set out above, investment tokens (and in particular security, equity and debt tokens) usually possess the characteristics specified and so may fall within the definition of a transferable security. In contrast, this is not the case for cryptocurrencies and utility tokens.

However, a case-by-case analysis is always required (or is, at least, the best approach to adopt). Indeed, to the extent that utility tokens may also confer governance rights on their holders (e.g., the right to vote on the governance of the undertakings that lead the project), such tokens might also be considered financial instruments, if they function in a similar way to traditional shares of a company.

iii Qualification of cryptoassets as financial products

If a cryptoasset does not meet the definition of a financial instrument, it should be verified whether it falls under the definition of a financial product before excluding the application of securities and investments laws. In this regard, the Supreme Court of Cassation, in decision No. 26807 of 2020, specifically clarified that the offering of cryptoassets may be

6 The characteristics are those described by the definition of transferable securities under Article 1, Paragraph 1 *bis* of the Consolidated Financial Act, which provides that transferable securities are categories of securities that can be traded in capital markets, such as:

a) company shares and other titles equivalent to company shares, of partnership or of other parties and share deposit receipts;

b) bonds and other debt titles including the deposit receipts relative to said shares;

c) any other transferable security that permits buying or selling transferable securities indicated in letters a) and b) or that involve spot settlement determined with reference to transferable securities, foreign exchange, interest rates or rates of return, commodities or other indices or measurements.

On this opinion, see Hacker, P, Thomale, C, ‘Crypto-Securities Regulation: ICOs, Token Sales and Cryptocurrencies under EU Financial Law’, in *European Company and Financial Law Review*, 2018; Annunziata, F, ‘Speak, If You Can: What Are You? An Alternative Approach to the Qualification of Tokens and Initial Coin Offerings’, in *Bocconi Legal Studies Research Paper No. 2636561*, 2019; and Boreiko, D, Ferrarini, G, Giudici, P, ‘Blockchain Startups and Prospectus Regulation’, in *European Business Organization Law Review*, 20, 2019.

7 CONSOB, Final Report on Initial Coin Offerings and Crypto-Assets Exchanges, 2 January 2020, pp. 1–2.

8 CONSOB, Final Report on Initial Coin Offerings and Crypto-Assets Exchanges, 2 January 2020, p. 2.

considered an offering of financial products falling under the scope of Article 1, Paragraph 1, letter (u) of the Consolidated Financial Act if it is accompanied by a promise or expectation of financial returns.

To be more precise, as it has been highlighted by legal scholars, the definition of financial products under Italian law is an ‘open’ definition. Indeed, the concept of ‘financial nature’ is not defined. To help define this concept and therefore clarify the interpretation of the concept of the ‘promise of financial returns’, it is worth referring to Supreme Court of Cassation decision No. 2736 of 2013, where the Court stated that:

the agreement has a financial nature when the reason for entering into the agreement – and not simply the motive behind it (which is not relevant for regulatory purposes) – consists precisely in the investment of capital (the commitment of the invested money) in view of an increase in the invested amount, with the investor only providing money as his or her contribution.⁹

Financial products can be defined as agreements that the parties reach to pursue an investment purpose, whereby the subscriber (i.e., the client) gives the provider cash or other assets and, on the other side, the provider receives and uses the assets to carry out all the activities stipulated under the contract, promising the client that he or she will receive the financial returns potentially generated by carrying out those activities.

In other words, the financial nature of financial products consists in the fact that the client expects to increase the capital invested with the returns potentially generated by the activities carried out by the provider; this expectation does not come from the client’s will to ‘invest’ alone, but it is triggered by specific promises of the provider.

Therefore, to qualify a cryptoasset as a financial product, a case-by-case analysis is required. For instance, utility tokens or cryptocurrencies that are offered to the public accompanied by promises of financial returns may constitute financial products.

iv Obligations under Italian securities and investment law

In this context, entities offering tokens qualifying as financial instruments or as financial products are required to file with CONSOB (and to all the other relevant EU supervisory authorities) a request for authorisation to publish a prospectus to offer such tokens to the public, pursuant to Article 94 et seq. of the Consolidated Financial Act, implementing Article 3 of Regulation EU 1129/2017.

Notably, however, this requirement shall not apply provided that:

- a the total value of the capital raised with the offering of the tokens is less than €8 million in a 12-month period;
- b the tokens are offered only to qualified investors; or
- c the minimum investment per investor is at least equal to €100,000.

9 Furthermore, the above principle has been confirmed by CONSOB in its discussion document on ICOs of March 2019, where it clarified that:

so called investments of a financial nature part of the financial product category consist of investment schemes involving the three following elements: (i) the investment of capital; (ii) the promise/expectation of a financial return; and (iii) the assumption of a risk directly connected and related to the investment of capital.

Conversely, if cryptoassets do not meet any of these criteria for exemption (thereby qualifying as financial products), their issuer is required to file with CONSOB a request for authorisation to publish a prospectus in compliance with Articles 94 and 94 *bis* of the Consolidated Financial Act. The request for authorisation must include the draft prospectus.

Apart from the information specified under the applicable regulation, a prospectus shall contain:

*in an easily analysable and comprehensible form, all the information that, depending on the characteristics of the financial products and the issuer, is necessary for investors to make an informed assessment of the assets and liabilities, profits and losses, financial position and prospects and of the issuer and any guarantors thereof, as well as of the related rights, reasons for issue and related impact on the issuer. The prospectus also contains a securities note, which briefly gives key information, in non-technical jargon. The format and content of the securities note, together with the prospectus, give adequate information on the fundamental features of the financial products in order to aid the investors to decide whether or not to invest in such products.*¹⁰

Subject to the condition that there is no existing regulatory provision specifically applicable (or issued) in connection with the product that is being offered, Article 94 *bis* of the Consolidated Financial Act allows the issuer or the offeror of the 'new' product to request CONSOB to provide specific indications on the information they must provide.¹¹ CONSOB will approve and authorise the publication of the prospectus in no more than 20 days, provided that it has received a request comprising all the necessary documentation required by the relevant regulatory provisions. If the request is incomplete or it has to include any further information or clarification, CONSOB may request the issuer to include any relevant additions or clarifications that it deems necessary.¹² The approval of the prospectus is effective for 12 months.

The issuer or the offeror must ask CONSOB to approve a supplement to a previously approved prospectus if there have been any changes to any of the information provided with the original prospectus and the offering period has not yet elapsed.¹³

III BANKING AND MONEY TRANSMISSION

At present, no specific provisions concerning banking or electronic money profiles have been issued by the Italian legislator.

Similarly to the qualification of cryptoassets as financial instruments or financial products, a case-by-case approach should be adopted in order to verify whether a cryptoasset

10 Article 94 *bis*, Paragraph 1, Consolidated Financial Act.

11 Article 94 *bis*, Paragraph 2, Consolidated Financial Act and Article 5 of CONSOB Regulation 14 May 1999, No. 11971 (the Regulation on Issuers).

12 Under Article 8 of the CONSOB Regulation on Issuers, in such a case, the 20-day term for approval is interrupted and starts running from the moment that CONSOB receives the information it has requested from the issuer (or the offeror, if relevant). If the request for approval is incomplete, the issuer or the offeror must comply with the CONSOB request within 10 days of the request; conversely, if CONSOB requests the inclusion of further information or clarification, the issuer or the offeror must comply within 20 days of the request.

13 Article 94 *bis*, Paragraph 4 of the Consolidated Financial Act.

falls under the definition of electronic money provided by Article 1, Paragraph 2, letter (h) *ter* of Legislative Decree No. 385 of 1 September 1993 (the Italian Consolidated Banking Act), implementing Directive 2009/110/EC.

Under Article 1, Paragraph 2, letter (h) *ter* of the Italian Consolidated Banking Act, electronic money ‘means electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transactions’, whereby payment transactions are defined under Article 1, Paragraph 1, letter (c), of Legislative Decree No. 11 as ‘an act, initiated by the payer or on his behalf or by the payee, of placing, transferring or withdrawing funds, irrespective of any underlying obligations between the payer and the payee’ and funds are defined under Article 1, Paragraph 1, letter (m), of Legislative Decree No. 11 as ‘banknotes and coins, scriptural money or electronic money’.

According to these definitions, it is rather unlikely that cryptoassets (and particularly, ‘traditional’ cryptocurrencies, such as Bitcoin) will fall under the definition of electronic money.

Indeed, under both the Consolidated Banking Act and Legislative Decree No. 11 of 27 January 2010 (implementing Directive (EU) 2015/2366¹⁴), cryptoassets and cryptocurrencies may not qualify as funds. Therefore, transactions in cryptocurrencies (or in other comparable cryptoassets) may not qualify as payment transactions.

However, this might not be the case for some stablecoins.

To the extent that a specific stablecoin is issued in exchange for the deposit of fiat money and the client maintains the right to redeem the deposited funds, giving back the stablecoin received, their issuance may count as the issuance of electronic money.

Furthermore, according to the European Banking Authority, to be qualified as electronic money, a specific cryptoasset shall:

- a* be electronically registered;
- b* have a monetary value;
- c* amount to a claim against the issuer;
- d* be issued at the receipt by the issuer of the relevant funds;
- e* be issued with the purpose of allowing the client to execute payment transactions; and
- f* be commonly accepted by the counterparties of the relevant transactions.¹⁵

As a consequence, issuers of stablecoins qualifying as electronic money are required to file a request to be authorised by the Bank of Italy as an electronic money institution. Failure to comply with this requirement constitutes, *inter alia*, a criminal offence under Article 131 *bis* of the Consolidated Banking Act.

Therefore, the issuance of fiat-backed stablecoins may be deemed to be an issuance of electronic money.

14 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

15 EBA, Report with advice for the European Commission on cryptoassets, 9 January 2019, pp. 12–13.

Conversely, non-fiat-backed stablecoins, such as crypto-collateralised¹⁶ and algorithmic stablecoins,¹⁷ should not fall under the definition of electronic money provided under the Consolidated Banking Act.

In particular, while it is evident that algorithmic stablecoins cannot be considered electronic money, some doubts may rise in connection with crypto-collateralised stablecoins that are issued in exchange for other cryptoassets.¹⁸ However, it seems unlikely that those cryptoassets may be considered electronic money to the extent that the deposited cryptoasset should fall under the definition of ‘funds’ provided under Legislative Decree No. 11/2010.

In addition, another aspect in favour of the exclusion of crypto-collateralised stablecoins from the scope of the definition of electronic money is the difficulty in identifying an issuer who must respect the provision set out by the applicable law, considering that their issuance is, in most cases, managed by a decentralised autonomous organisation (as is the case for DAI, the stablecoin issued by MakerDAO) or by a computer protocol in the form of a smart contract (as is the case for VAI, the stablecoin issued by Venus).

IV ANTI-MONEY LAUNDERING

While cryptoassets do not have a specific regulatory status in Italy, as highlighted in previous sections, the only Italian laws and regulations that provide a definition applicable to them are those concerning anti-money laundering regulations. Article 1, Paragraph 2, letter (qq) of Legislative Decree No. 231/2007 (also known as the AML Regulation), implementing, inter alia, the Fifth Anti-Money Laundering Directive, provides the definition of a virtual currency.¹⁹ Modifying the definition provided by the Fifth AML Directive (upon its implementation), virtual currencies are defined in the AML Regulation as ‘the digital representation of value that:

is not issued or guaranteed by a central bank or a public authority; is not necessarily attached to a legally established currency accepted as a means of exchange to buy goods and services or for investment purposes; and can be transferred, stored and traded electronically’.²⁰

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- 16 Crypto-collateralised stablecoins are stablecoins whose value is granted by the value of several cryptoassets deposited and used as collateral to permit their ‘minting’. The collateralisation ratio is predetermined by their smart contract.
- 17 Algorithmic stablecoins are cryptoassets with no underlying collateral and whose issuance is governed by a smart contract, which is engineered to maintain their value at a constant level or pegs them to a specific fiat currency.
- 18 Indeed, algorithmic stablecoins are not usually issued in exchange for fiat money from clients and do not amount to a claim in relation to the issuer for the reimbursement of the purchased value.
- 19 Directive (EU) 2018/843 of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the Fifth Anti-Money Laundering Directive).
- 20 Indeed, the Fifth Anti-Money Laundering Directive defines virtual currencies as ‘a digital representation of value that is not issued or guaranteed by a central bank or a public authority, is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but is accepted by natural or legal persons as a means of exchange and which can be transferred, stored and traded electronically’.

The introduction of this definition implies that offering of services related to the use of cryptoassets will fall under the definition of 'providing services related to the use of cryptocurrencies' in accordance with Article 1, Paragraph 2, letter (ff) of the AML Regulation.

The same regulation also regulates the offering of crypto custody activities, through the introduction of the definition of companies 'providing custodian wallet services' in accordance with Article 1, Paragraph 2, letter (ff) *bis* of the AML Regulation.

V LICENSING REQUIREMENTS FOR CRYPTOASSETS SERVICE PROVIDERS AND WALLET SERVICE PROVIDERS

The Italian legislator recently introduced licensing requirements for the provision of services related to cryptoassets by Crypto Assets Service Providers (CASP) and Wallet Service Providers (WSP).

Article 8(1) of Legislative Decree No. 90 of 2017 extends the provisions of Article 17 *bis* of Legislative Decree No. 141 of 2010 to CASP, and Article 5 (2), letters (a) and (b) of Legislative Decree No. 125 of 2019 extends the provisions of Article 17 *bis* of Legislative Decree No. 141 of 2010 to WSP. Most recently, the Italian Ministry of Economy and Finance (MEF), by Decree of 13 January 2022, set out the modalities and timing by which providers of services relating to the use of virtual currency and providers of digital wallet services are required to notify their operations in Italy, as well as forms of cooperation between the MEF and the police forces.

In particular, according to Article 17 *bis* (8 *bis*) of Legislative Decree 13 August 2010, No. 141 (on loan brokerage services referred to by the AML Regulation, known as the Loan Broking Rules), to provide services related to the use of cryptoassets, CASP and WSP, as defined in Article 1(2) letters (ff) and (ff) *bis* of Legislative Decree N. 231 of 2007, are required to enrol in a special section of the Register of Foreign Exchange Providers (OAM Register), which is kept by the Association of Loan Agents and Credit Brokers (OAM) in accordance with Article 17 *bis* (1,2).

CASP and WSP, which are legal persons, are required to establish their registered or administrative office in Italy, and European legal persons shall have a stable organisation in Italy, while those who are natural persons, shall be citizens of Italy, of a European Union Member State or of a third country.²¹ The provision of services related to the use of cryptocurrencies by natural or legal persons that are not enrolled in the OAM Register is considered unlawful.

After being enrolled in the register, CASP and WSP shall transmit data on transactions carried out in Italy to the OAM quarterly. The data that shall be provided are client identification data and data on the operations carried out by each client.

With regard to sanctioning powers, the Association of Loan Agents and Credit Brokers may suspend from the special section of the register any natural or legal person that violates the reporting duties or remove them should they not meet any of the requirements for carrying out their activity, should they repeatedly violate the data reporting obligation, should they be inactive for more than one year unless there is a justified reason or should they terminate their activity.

21 Provided that they comply with the Consolidated Immigration Act and domiciled in Italy.

VI REGULATION OF EXCHANGES

Apart from the application of the AML Regulation and the rules concerning the enrolment in the register of Foreign Exchange Providers kept by the Association of Loan Agents and Credit Brokers, Italian laws do not provide a specific regime for exchanges or other cryptoasset service providers (e.g., wallet service providers). This implies that cryptoasset exchanges are subject to the rules applicable to regulated markets, multilateral trading facilities (MTFs) or organised trading facilities (OTFs) based on the business model adopted by, and the type of cryptoasset traded on, the exchange.

With regard to the business model adopted by the exchange, it is first necessary to clarify that the recent decentralised finance developments have led to the rise of new protocols that could potentially revolutionise multiple areas of the traditional financial ecosystem. In the past two years we have witnessed, above all, a significant spread of decentralised exchanges (DEXs) functioning as automated market makers (AMMs). AMMs are computer protocols that allow users to trade cryptoassets in a permissionless and decentralised way, without the need for a central entity acting as market maker. The lack of a central entity is permitted by directing the liquidity supplied by users, according to specific mathematical formulas, to pools of cryptoassets, rather than deploying a traditional order book.

The decentralised nature of DEXs impedes the application of traditional rules regarding regulated markets, MTFs or OTFs. However, this does not mean that in the future specific regulations will be adopted to regulate them. Despite their differences from centralised business models, according to CONSOB the permissionless and decentralised business models shall not be excluded from the proposed regulation, as this would ‘conflict with market developments’.²²

Where exchanges, following different trading models (referred to as multilateral systems), deal with cryptoassets that qualify as financial instruments, they fall under the legal regime set out by the Consolidated Financial Act.²³ As a consequence, when exchanges operate as regulated markets (RMs), they fall within the scope of Articles 64 *quater* and 65 of the Consolidated Financial Act;²⁴ when they operate as MTFs, they are governed by Articles 65 *bis* and 65 *ter* of the Consolidated Financial Act; when they operate as OTFs, they are regulated by Articles 65 *quater* and 65 *quinquies* of the Consolidated Financial Act.²⁵ Finally, in the case of exchanges operating as systematic internalisers, Article 71 of FLCA applies.

Notwithstanding its decentralised nature, a cryptoasset exchange dealing with financial cryptoassets can be considered an RM, an MTF or an OTF, in which case, it needs to be

22 CONSOB, Final Report on Initial Coin Offerings and Crypto-Assets Exchanges, 2 January 2020, p. 11.

23 See Section II.ii on securities and investment laws for a description of cryptoassets qualifying as financial instruments.

24 Under Article 1, Paragraph 1, letter (w) *ter* of the Consolidated Financial Act, a regulated market is defined as:

a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with Part III [of the Consolidated Financial Act].

25 Under Article 1, Paragraph 5 *octies*, letters (a) and (b) of the Consolidated Financial Act: (1) ‘multilateral trading facility’ is defined as:

managed by a market operator (MTFs and OTFs may also be managed by investment firms), which in turn must be authorised by CONSOB and must meet the requirements set out in Article 64 of the Consolidated Financial Act.

Where exchanges deal with non-financial cryptoassets, there is currently no legal framework envisaged in Italy.²⁶ However, in its discussion document on ICOs of March 2019, CONSOB provided some guidance and proposals on how these types of exchanges should be regulated in the absence of any measure adopted by the legislator.

In particular, the framework envisaged by CONSOB is an opt-in mechanism and cryptoasset trading systems that intend to fall under CONSOB's proposed regulation must comply with certain requirements. First, the cryptoassets exchanged should have been offered through one or more dedicated cryptoasset offering platforms that meet the requirements set out by CONSOB in its discussion document on ICOs. In addition, the cryptoasset trading system's operator shall register the system on a register kept by CONSOB. With regard to the operator's system requirements, the operator should adopt a set of transparent and non-discriminatory rules and procedures for trading, selecting cryptoassets and detecting who can access the system. Moreover, the system operator should:

verify that the information on cryptoassets that is provided by the issuers and made available to the investors is updated and comprehensive; should set up effective risk identification and risk management procedures; be able to facilitate the flawless settlement of transactions and have organisational and operational safeguards, such as operational continuity and IT security; and lay down procedures to manage conflicts of interest and have appropriate rules and procedures for the investment of financial resources and the safekeeping of cryptocurrencies and cryptoassets.

CONSOB specifies that the type of system operators that may file a request for registration are trading venue operators, managers of crowdfunding portals aimed at funding small- and medium-sized enterprises, social enterprises and managers of cryptoasset offering platforms.

As far as service providers separate from exchanges are concerned, there is currently no legal framework envisaged in Italy, nor did CONSOB set out any proposed regulation in its discussion document on ICOs.

a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules – in a way that results in a contract in accordance with Part II and III [of the Consolidated Financial Act]

and (2) 'organised trading facility' is defined as:

a multilateral system which is not a regulated market or an MTF and in which multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in the system in a way that results in a contract in accordance with Part II and III [of the Consolidated Financial Act].

26 These are types of assets other than the financial instruments referred to in Article 1, Paragraph 2 of the Consolidated Financial Act and the investment products referred to in Paragraph 1, letter (w) *bis.1*, (w) *bis.2* and (w) *bis.3* of the Consolidated Financial Act, consisting of the digital representation of rights associated with investments in business projects, issued, kept and transferred through distributed ledger-based technologies, as well as traded or intended to be traded in one or more trading platforms, as highlighted by CONSOB in its final report of January 2020.

VII REGULATION OF MINERS

Miners of cryptocurrencies in Italy are not subject to any specific regulatory regime. In addition, the particular nature of the mining activity does not subject miners to any other existing regulation.

VIII REGULATION OF ISSUERS AND SPONSORS

The legal framework applicable to issuers depends on the cryptoasset issued. Where the issuance concerns cryptoassets that qualify as financial instruments (i.e., investment tokens and, in rare cases, utility tokens), Article 94 et seq. of the Consolidated Financial Act apply.

In contrast, where the issuance concerns cryptoassets that are not of a financial nature (i.e., assets other than financial instruments or financial products), no specific regulation applies.

To date, CONSOB has only proposed implementing a specific regime in its discussion document of March 2019 on ICOs.²⁷ According to these rules, which are not in force yet, issuers of non-financial cryptoassets would be exempt from the rules set out in the Consolidated Financial Act and an opt-in regime could apply.

Under CONSOB's proposed regime, issuers could be companies, natural persons or networks of computer protocol developers. If the issuer were established as a corporate vehicle, it would arrange for administration and management control tools and would publish accounting reports, which would then be audited in accordance with Article 2409 *bis* of the Civil Code. Conversely, if the issuer were a natural person or a network of developers, it would be exempt from these provisions.

To protect investors' interests, CONSOB's rationale is not to impose strict organisational or capital requirements, but rather to stress the importance of transparency requirements. Following this approach, CONSOB formulated a list of minimum requirements that issuers shall meet. Issuers are required to publish and update annually a document showing information about transactions, general information on cryptoassets such as their number and valuation, and the exchange platform chosen to start trading. Issuers shall also update this initial document if there are exceptional events that may alter the offer.

Furthermore, according to this framework, there should be an indirect control mechanism whereby cryptoasset-offering platform managers may establish additional requirements for issuers that are necessary for investors to assess the investment, as well as to make sure that issuers comply with their obligations.

Nevertheless, when implementing the above-mentioned requirements, the principle of proportionality (i.e., the magnitude of the token issuance) should be taken into account.

²⁷ It has been argued that implementation of the proposed regime has been slowed down by the EU proposal for a Regulation on Markets in Crypto-assets (MiCA).

IX CRIMINAL AND CIVIL FRAUD AND ENFORCEMENT

To date, major criminal or civil enforcement actions on cryptoassets have concerned the way cryptoasset services have been offered to the public. As noted above, the offering and distribution of cryptoassets under Italian law are still not regulated. This means that an issuer is free to distribute those cryptoassets to the public and need only respect the AML requirements.

However, we have also seen that the way in which a cryptoasset is offered to the market may change its nature. A non-financial cryptoasset (e.g., a cryptocurrency such as Bitcoin) may become a financial product and so acquire a financial nature.

According to the definition of a financial product provided above, the activity of distributing non-financial cryptoassets together with the promise of specific financial returns amounts to an offering of a financial product. This offering constitutes a criminal offence under Article 166, Paragraph 1, letter (c) of the Consolidated Financial Act.

In this context, it is worth mentioning Supreme Court of Cassation criminal law decision No. 26807 of 2020, which concerned the selling of Bitcoin to the public through a website. Notwithstanding the fact that Bitcoin does not have a financial nature, in its judgment the Supreme Court held that there had been a violation of Article 166, Paragraph 1, letter (c) of the Consolidated Financial Act on abusive financial activity (which is punishable with one to eight years' imprisonment and a fine ranging from €4,000 to €10,000). The reason for this judgment was that Bitcoin was offered to the public with advertisements promising a specific return from that form of 'investment'.

Notably, under the Consolidated Financial Act, Consob is entitled to exercise specific powers to combat abusive financial activities that are carried out by anyone who provides investment services or activities in cryptoassets that can be qualified as financial instruments or products.

In particular, Article 7 *octies* of the Consolidated Financial Act states that 'with respect to anyone who offers or performs investment services or activities through the Internet without being authorized under [the Consolidated Financial Act]', Consob is entitled:

- a* 'to make public, also as a precautionary measure, the circumstance that the subject is not authorised [pursuant to the Consolidated Financial Act to provide investment services]'; and
- b* 'to order the cease of such infringement'.

Furthermore, the scope of such powers has been broadened by Article 36, Paragraph 2 *terdecies*, of Law Decree of 30 April 2019, No. 34 (as converted by Law 28 June 2019, No. 58) and Article 4, Paragraph 3 *bis*, second sentence, of Law Decree 30 December 2019, No. 162 (as converted by Law 28 February 2020, No. 8).

Article 36, Paragraph 2 *terdecies*, of Law Decree No. 34/2019 states:

Consob will order to providers of internet connectivity services or to the operators of other telematic or telecommunications networks, or operators who provide telematic or telecommunications services in relation thereto, to remove the initiatives of anyone in the territory of the Republic who, via telematic or telecommunications networks, offers or performs investment services or activities without being authorised to do so. The recipients of the orders communicated pursuant to the first paragraph are

*obliged to inhibit the use of the networks of which they are operators or in relation to which they provide services. Consob may lay down in a regulation the modalities and time limits for compliance with the requirements set out in this paragraph*²⁸.

In essence, Article 36, Paragraph 2 *terdecies* of Law Decree 34/2019 gives Consob the power to order Internet Service Providers (ISPs) to block the website used by the entity (or the person) suspected of carrying out abusive financial intermediation in Italy.²⁹ Indeed, Consob has been *de facto* granted the power to block the access by Italian investors to the websites of anyone who is suspected by Consob of carrying out abusive financial intermediation in Italy.

Therefore, persons carrying out abusive intermediation services in Italy are indirectly (even though substantially) affected by the exercise of such power.

Shortly after, the Italian legislator issued Article 4, Paragraph 3 *bis*, second sentence, of Law Decree No. 162/2019, which establishes that Consob may also exercise website-blocking power:

for the removal of the initiatives of whoever in the territory of the Republic, through telematic or telecommunication networks: a) offers financial products to the public in default of the prescribed prospectus; b) disseminates advertisements relating to public offers of financial products other than Community financial instruments before the publication of the prescribed prospectus.

Therefore, Consob may also block the website of anyone who, even if is not carrying out financial intermediation, is abusively offering its financial products to the public of investors, thus violating the requirements imposed by Articles 94 et seq. of the Consolidated Financial Act (i.e., Consob authorisation to publish the prospectus of such products).

As of today, websites' blocking powers are regarded as precautionary powers (indeed, Consob has developed significant administrative practice evidence that it exercises these powers as precautionary measures).

In fact, if the measures taken against persons, who are suspected as having carried out abusive financial activities in Italy, are of a precautionary nature, and these measures are legitimately adopted by Consob based on the evidence collected during the proceeding and have been discretionarily evaluated as being dangerous for Italian investors, then it follows that the same measures could be withdrawn if and when it is proved that the activities carried out without authorisation have ceased or it is proved that, differently from the evaluation conducted by Consob, such activities are not (or are no longer) dangerous for Italian investors.

Despite these specifications, there is still very little clarity on these powers and their qualification under the current administrative general laws and principles. In fact, to date, Italian administrative courts have still not scrutinised the exercise, legitimacy, limits or mere qualification of such powers.

28 To date, no such regulation has been issued.

29 This provision has therefore a direct and immediate application with respect to ISPs and applies only 'indirectly' to the persons whom Consob deems are illegally conducting financial intermediation.

X TAX

Given the absence of specific rules, the Italian fiscal authority, also in light of what was stated by the European Court of Justice in decision No. C-264/14 of 22 October 2015 (*Skatteverket v. Hedqvist*), has chosen to liken the fiscal treatment of cryptoassets to that of foreign currencies.³⁰ This approach seems reasonable overall, though some uncertainties remain as cryptocurrencies have been forced into a specific category of assets to which they belong only partially.

i Income tax treatment of individual investors

As of today, Italy is one of the most favourable European jurisdictions for small individual investors in cryptocurrencies. Indeed, capital gains are deemed fiscally relevant only if the total value of crypto activities held by an individual investor has exceeded the threshold of €51,645.69 for at least seven consecutive business days over a calendar year.³¹

In addition, as has been clarified by the fiscal authority, the exchange rate to be considered to evaluate the entity of crypto deposits in a given moment is the one provided as of 1 January of the relevant year by the exchange used to acquire the cryptocurrency or, if not available, by the exchange where the investor has performed the majority of his or her transactions during the course of the year.³²

Moreover, although the Italian fiscal authority has not clarified its position on the matter, it is generally accepted that crypto-to-crypto transactions should not be considered fiscally relevant, so capital gains should be realised only when cryptocurrencies are exchanged back to fiat money.

As it is the case for foreign currencies, relevant capital gains are subject to a substitutive tax at a flat rate of 26 per cent, and therefore do not contribute to the determination of taxable income for individual investors.

Finally, it is worth noting that the Italian fiscal authority has stated that cryptoassets acquired in ICOs should also be treated as foreign currencies, so the fiscal treatment applied to them should correspond to that of cryptocurrencies acquired through the use of exchanges.

ii Corporate income tax

From the perspective of an enterprise, the income generated by operating in cryptoassets is subject to taxation as with any other corporate income. However, the specific nature of these assets may give rise to doubts as to the accounting rules applicable for an accurate preparation of the company balance sheets, with a number of potential fiscal implications.

iii Value added tax regime

The Italian fiscal authority, recalling the *Skatteverket v. Hedqvist* decision of 2015, has confirmed that the purchase and sale of cryptoassets is generally exempt from value added tax (VAT).³³

30 Agenzia delle Entrate, Resolution 72/E – 12 September 2016.

31 Article 67, Paragraph 1 *ter*, of the Italian Consolidated Law on Income Tax.

32 Agenzia delle Entrate, Interpello No. 956-39/2018 and Interpello 903-47/2018.

33 At the European level see Court of Justice of the European Union, 22 October 2015, C-264/14, Case *Skatteverket v. David Hedqvist*, confirmed by Italia authority in Agenzia delle Entrate, Resolution 72/E – 12 September 2016.

However, the Italian fiscal authority has emphasised that the issuance of utility tokens after an ICO is subject to ordinary VAT rules,³⁴ provided that the issued tokens assign to their holders the right to a determined service offered by the issuer, and do not perform the function of a digital currency or of an investment product.

XI LOOKING AHEAD

Unlike other European countries, Italy does not have a complete legal framework for cryptoasset issuers and intermediaries. As indicated above, CONSOB's legal framework proposal may be stopped by the EU Markets in Crypto-assets Regulation proposal (MiCA). This means that Italy could become a potential hub for cryptoasset start-ups, as there is no specific regulation that might block or impair a development of this kind.

However, this will only be the case to the extent that the absence of regulatory provision is seen by investors as representing an opportunity, rather than as a source of uncertainty (which is usually not appreciated by some market operators).

To prevent any uncertainty of this kind, the Italian regulator may resolve the position by using soft law, such as specific public opinions from relevant authorities on how existing rules will apply to cryptoasset services.

34 Agenzia delle Entrate, Answer No. 110/2020.

ABOUT THE AUTHORS

RAFFAELE LENER

Lener & Partners

Raffaele Lener is the name partner at Lener & Partners.

He has been a professor since 1994 and is currently a member of the law faculty of the Tor Vergata University of Rome (Rome II), where he teaches commercial law and financial markets law. He is also a lecturer in commercial law at Luiss Guido Carli University.

He was a partner at Freshfields Bruckhaus Deringer from 1998 to 2018. He was a member of the Banking and Financial Ombudsman (ABF) at the Bank of Italy and is currently a member of the Securities and Financial Ombudsman (ACF) at CONSOB and of the Supervisory Committee of the OCF Supervisory Authority and Register of financial advisers. He is also a member of the Assoreti Jury of Honour. He was general counsel at Assogestioni from 1985 to 1996.

He is vice president of the Association of Economics Law Lecturers (ADDE) and director, with Eugenio Picozza, of the series 'Diritto dell'Economia' (Giappichelli).

SALVATORE L FURNARI

Lener & Partners

Salvatore L Furnari is a lawyer and a chartered accountant at Lener & Partners. He has experience in assisting and advising both Italian and international clients on a variety of regulatory issues. He is specialised in fintech, cryptoassets, DeFi, banking, financial and company law. He provides ongoing assistance to blockchain projects with reference to the applicable law to operate in Italy, their services to clients, Initial Coin Offering (ICO) and Initial Dex Offering, launch of NFT collection, creation of decentralised autonomous organisations, advising regulated and non-regulated entities with reference to corporate governance, regulatory and fintech issues.

He is a PhD candidate in financial market law and regulation at the Tor Vergata University (Rome II). His research focuses on cryptoassets, decentralised autonomous organisations and financial services offered by blockchain-based protocols.

NICCOLÒ LORENZOTTI

Lener & Partners

Niccolò Lorenzotti is an associate at Lener & Partners and a researcher at Tor Vergata University. His practice focuses on assisting asset management firms and credit institutions

with financial markets and banking regulatory matters, including the regulation of fintech and advising them on financial market transactions. Before working as an associate at Lener & Partners, he gained work experience in the legal service of the European Securities and Markets Authority and in an international London-based asset management firm.

ANTONIO DI CIOMMO

Lener & Partners

Antonio Di Ciommo's practice focuses on fintech, banking and financial markets laws and regulations. He has experience in assisting national and international companies, banks, intermediaries and asset managers with respect to financial services regulatory issues and other financial or corporate transactions. Antonio is also a PhD student at the Tor Vergata University of Rome (Rome II) in financial markets law and regulation. His research primarily focuses on the rules applicable to smart contracts under the current regulatory framework.

LENER & PARTNERS

Piazza del Popolo, 18
00187 Rome

Italy

Tel: +39 06 952 82 400

Fax: +39 06 952 82 499

antonio.diciommo@leplex.it

salvatore.furnari@leplex.it

raffaele.lener@leplex.it

niccolo.lorenzotti@leplex.it

www.leplex.it

ROBERTO A LENER

VERTEQ Capital

Roberto A Lener is an associate at VERTEQ Capital, a private equity investment company based in Milan, and a chartered accountant registered in Milan. He is a member of the board of directors for ArteOlio Società Agricola Srl, a company operating in the production of Italian extra-virgin olive oil through the use of innovative technologies. Previously, Roberto gained expertise as an investment banker in the Italian team of an international investment bank. His main areas of competence are in cryptoassets, corporate finance, financial statements analysis and reporting, business due diligence and financial modelling.

VERTEQ CAPITAL

Via Larga 13

20122 Milan

Italy

Tel: +39 02 8277 8044

roberto.lener@verteqcapital.com

www.verteqcapital.com

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