

Original Paper

Digital Financial Investment in Digital Currencies Risks and Impact on the Profitability of Financial Companies

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1. Introduction

The mechanism of the so-called “digital” currencies is based on the assumption that it replaces traditional cash; therefore, fully understanding digital currencies requires looking into a comprehensive history of money evolution which is the broad framework of currencies. Money as a means of exchange did not have the form that we know today; rather, Money, as we know it today, is the result of a long process of evolving.

Digital Currency is a method of monetary exchange where value is stored and exchanged on digital computer systems. Digital currency types include virtual currencies and digital currencies. Moreover, digital currency can include many common products such as gift cards, debit cards, airline reward cards, and cash equivalents for credit cards. These digital currencies share a common feature of having a real-world value and being used to purchase goods and services.

Digital currencies depend on cryptography and digital signatures. Unlike traditional money, these digital currencies are characterized by ensuring security and verifiability.

Bitcoin is considered the first digital currency and the most famous on the Internet. It was first revealed in a research paper, published in 2008, for an anonymous person named Satoshi Nakamoto. Some think that it has been invented by a group of Irish students who use this pseudonym. Bitcoin has been described as an electronic cash system that completes financial transactions on the peer-to-peer principle- a technical concept that requires the presence of two parties to perform the transaction without the need for a trusted external third party as an intermediary. The third party has been replaced by the encryption technology for transactions that uses block chain technique. Bitcoin trading was first debuted in 2009.

Moto believes that online trading depends on financial institutions that act as a trusted third party to process electronic payments; however, there are weaknesses in this trust based model, in which cases of

fraud, additional costs of brokerage transaction and decreasing the minimum extent of transactions are resulted. For such reasons, Nakamoto introduced Bitcoin.

Unlike traditional paper or cash currencies, Bitcoin is not issued by a central authority (central bank), nor is it linked to goods or services that have intrinsic value.

Digital currencies, including Bitcoin, are not issued through central banks, as is the case for traditional currencies, but they are issued through a process called mining (virtual currency mining).

This is done through miners, and the mining process is not restricted to a specific party or specific people, it is available to everyone anywhere in the world. However, it requires time and high-tech computers. Virtual currency mining allows downloading free mining programs, such as the Bitcoin network, which are referred to as algorithms that solve a number of equations and puzzles miners get from the network. An algorithm is the process or set of rules to be followed in calculations or other problem-solving operations. Thus, the program issues the currency and adds it to the electronic wallet of the miner.

1.1 Problem Statement

Because of their great spread all over the world, digital currencies are made real virtual currencies. At the end of April 2018, there had been up to 1500 operations of a 400-billion-dollar market capitalization. An increasing number of these currencies are being improved; each type having its own unique characteristics. Moreover, financial companies have begun investing in digital assets, entering the field of digital currencies. However, many risks facing digital financial investment have emerged and that urged the researcher to address the following question:

What are the risks of digital financial investment in digital currencies on the profitability of financial companies?

1.2 Research Questions

- 1). What are cryptocurrencies?
- 2). How common is cryptocurrency?
- 3). How trustworthy is the widespread cryptocurrency?
- 4). What are the risks of digital financial investment in cryptocurrencies?
- 5). What are the effects of digital financial investment in digital currencies on the profitability of financial companies?

1.3 Research Objectives

The research objectives include:

- 1). Determining the essence and the nature of digital currencies.
- 2). Identifying financial pitfalls of digital currencies.
- 3). Determining the appropriate financial scale for investing in digital currencies.
- 4). Determining the risks of digital financial investment in digital currencies in financial companies.

1.4 The Importance of Research

The importance of the research stems from the following elements:

- 1) The growing interest in digital currencies and the increasing volume of their circulation in the global business trading and the tendency of many international institutions, whether banking or commercial, to recognize and adopt them as an acceptable currency and a mediator of exchange.
- 2) The trend of financial companies towards digital financial investment in digital currencies.
- 3) The financial pitfalls of digital currencies and the appropriate financial scale for investing in digital currencies in light of the international criteria for writing financial reports.

1.5 The Limits of the Search

Geographical borders: Republic of Iraq, financial companies.

Time limits: 12/1/2021, until 2/2/2022.

1.6 Research Hypotheses

To answer the questions of the research problem, and achieve its objectives, the research hypotheses can be formulated as follows:

The first hypothesis: There are no differences of statistical significance between the average answers of the two groups of the study sample regarding the presence of shortcomings in the current framework for investing in digital currencies in light of the necessary criteria for preparing digital financial investment requirements at a level of significance of 5%.

The second hypothesis: There are no differences of statistical significance between the average answers of the two groups of the study sample regarding that the multiplicity of business models, the usual activity of the establishments, and the economic nature of the transaction leading to a multiplicity of financial models for digital currencies at a 5% significance level.

2. Research Methodology

To achieve the purpose of the research and to test its hypotheses, the following approaches are followed:

The inductive approach: where a theoretical study was conducted to extrapolate and analyze the most important studies, researches and Arab and foreign references related to digital currencies.

The deductive approach: where the research hypotheses were formulated, and a field study was carried out in which questionnaire instrument and personal interviews were used for collecting all the data from the sample under study, and the results were analyzed using appropriate statistical methods.

3. Literature Review

Previous studies have tackled digital currencies from various perspectives, from the technical and economic or accounting point of view. Technically, the Nokomoto 2009 study is considered a pioneering study on digital currencies. To clarify, peer-to-peer system, digital signatures and block chain enabled Bitcoin to solve the problem of double spending facing electronic accounts, as digital money can be transferred from one user to another without allowing the user to copy, transfer and

spend electronic money twice, needless of a central authority or central bank that users trust to manage their financial transactions.

The Fanning and Centers 2006 study aimed at studying the impact of the use of the block chain, known as the distributed ledger, as the most important component in the exchange of digital currencies, including Bitcoin in the field of banking services. The study was conducted to validate that block chain technology preserves transaction data against manipulating and making modifications in the chronological sequence. Moreover, Simon, et, al, 2017 study finds that ledger data can be shared, updated, and changed by consensus of the majority, and a peer-to-peer network enables users to validate records without the use of a central authority, and this will transform the way traditional financial and auditing procedures are carried on.

As a matter of fact, the Moll and Yigitbasiogly (2019) study inferred the impact of modern data technology, including blockchain technology which represents a major component of cryptocurrency exchange from academic studies on the work of financial professionals, and it was concluded that researchers did not pay enough attention to these technologies, and how they affect the financial profession. There is also an urgent need for research to understand the new types of finance needed to manage companies in the changing digital economy and to identify new skills and competencies that accountants may need.

Moreover, from an economic point of view, Bunjaku, et al. (2017) study aimed to identify the advantages and disadvantages of digital currencies. Recently, digital currencies and Bitcoin have become major topics in the financial industry. A digital currency is cryptocurrency that uses encryption for security. It was concluded that the future of digital currencies is not easily predicted. There is still a long way for work to be done, especially in the field of official regulations, yet banks and other financial institutions are supposed to look at digital currencies as an alternative to financial transactions in the future.

Furthermore, Lipton, 2018 explained the role of digital currencies and block-chain technology in modern society and compared various forms of digital money such as electronic money issued by the central bank and Bitcoin. Additionally, Houben and Snyers (2018) examined the rationale for the concerns of European Union regulators about the use of digital currencies in illegal regimes such as money laundering, terrorist financing as well as tax evasion and provided recommendations that address European Union criteria from a legal perspective.

Also, Ram, et al. (2016) study aimed to identify a conceptual approach to investing in Bitcoin. The researcher concluded that the cost and equivalent value may be contradictory in terms of concepts. Yet, according to experts in the field of financial reporting, any of them can be used to reach the economic rationale for investing in Bitcoin, and setting it in line with the company's business standards.

Moreover, Prochazka study (2018) had the objective of evaluating the financial models of digital currencies under the International Financial Reporting Standards, and it was concluded that accounting the fair value is the most important source of useful data for financial reports users when digital

currencies are obtained for the purposes of digital financial investment. Besides, the study identified the scenarios by which digital currencies are treated as foreign currencies. Additionally, the Ram (2019) study found that bitcoin represents a unique type of investment assets, one that is distinct from other digital financial investment assets.

The study of McCalling, et al. (2019) aimed to improve financial data systems design which is the basis for preparing financial reports using block chain technology. It was concluded that this technology can be used by auditors to support their opinion or by stakeholders who need reliable data about the company.

By evaluating the previous studies, we find that most of them focused on dealing with digital currencies from multiple perspectives: technically, economically and financially. However, regarding the financial aspects, the studies focused on digital currencies as a foreign currency, or financial currency as an investment or as a new added category of company assets, as well as evaluating the conceptual approaches to investing in digital currencies concerning the use of fair value. However, neither did the studies provide assessing criteria for the comparison among digital currencies nor did they study their impact on the financial data systems of the facility. Based on that, the researcher notes that these studies did not address many of the pitfalls regarding finance about digital currencies in light of the multiplicity of business models, the usual activity of the establishments and the nature of transactions. Through this research, the researcher will study and analyze those pitfalls and the appropriate financial means to invest in digital currencies.

3.1 What Is Digital Currency?

Digital currencies are numbers and symbols you find on a computer or a mobile phone screen. Each currency has its own symbol or sign and is influential in the global economy, especially with its widespread popularity all over the world. At present time, large Investors and businessmen in the world, pioneered by Elon Musk who promoted them with an investment of up to \$ 1.5 billion in these currencies, are trading in digital currencies as the fastest way to obtain profit. Moreover, Elon Musk has recently announced the possibility of using cryptocurrency as a way to purchase his Tesla cars.

The history of digital currencies: The origins of digital currencies go back to the year 1990 AD when we started working with data technology. At first, the beginning was through electronic gold products which were established in 1996 AD. And in the year 2006 AD, the “Liberty Reserve” site began to establish the well-known digital currency which allows users to convert the dollar or the euro into a digital currency on the same site, and allows exchange between dollars and euros at a fee of 1 %. However, the US government closed this business completely after accusations that it was exploited for money laundering.

In China, particularly in 2005, a type of digital currency based on the main commodities was used via the “TENCENT QQ” platform through “Q” coins, but it was accused of destabilizing official Chinese currency “Yuan” due to competitive rivalry and speculation; therefore, it didn’t have a strong effect.

And in 2018, the trend of digital currencies began in a new and modern form with Bitcoin to become in 2009 the most widely used digital currency all over the world and spread over countries.

3.2 The Most Important Types of Digital Currencies

Although many believe Bitcoin is the one and only one type of digital currencies, there are other types. According to CoinMarketCap.com, a cryptocurrency website, there are more than 6,700 cryptocurrencies trading online in various countries around the world. There are also many companies that have started issuing their own digital currency which can be used to purchase services and products for the company, but the most popular and widely traded ones in the world are:

Bitcoin BTC:

It is a virtual currency that does not have a real physical form. Despite its use in the treatment of illegal digital currencies and transactions, it is the most widely traded in the world as it provides money without the knowledge of the owners' name or any data about their identity.

Because the Bitcoin mechanism doesn't disclose the identity of the owner of the currency (the sender) as well as that of the recipient of the money (the recipient), it can be used in money laundering and illegal transactions. This makes it difficult for countries to identify or regulate them by central financial agencies as its trade which is based on the policy of supply and demand cannot be tracked. However, because of the increasing use of this currency in different countries, many of them were forced to recognize it and officially use it in a way that serves their interests and under the supervision of the Central Financial Agency.

Ethereum ETH:

ETH is one of the most famous digital currencies competing with Bitcoin. It was created in 2015. It did not have a strong circulation until 2016 when 500 wealthy companies came together to discuss and join forces to improve the technology network. And this currency was supported to be the pioneer of digital currencies among the companies and to support the acceleration of decentralization in the global economy.

Although it is instable, it can be used as a financial asset for traders. Unlike Bitcoin, it allows customers to access it by running any software through a decentralized application and is not controlled by any individual or central system. Thus, it's a convenient financial investment in digital technology among companies.

Tether USDT

It is a digital currency that converts recognized currencies such as the dollar or the euro into a digital currency. It follows "Omni Layer", a well-known protocol in the trading platform. Its first appearance dates back to 2014, and it is headquartered in Hong Kong.

Binance Coin BNB

It is a digital currency used as an intermediary for exchanging money from one currency to another. It was established in 2017, by a Chinese company called Beije Technology in Hong Kong, which runs

the Binance Exchange, one of the most successful exchange companies in the leading and well-known digital currencies all over the world.

3.3 Entering the World of Digital Currencies

Before investing in digital currencies, you should know that the presence of major countries and companies in the digital currency line brings along various results that will fluctuate the scales of the global financial system.

In this interconnected world governed by the rules of globalization, and social media conveying messages from pioneers of the business community and major companies, attention has been drawn greatly to digital currencies especially Bitcoin as its price has skyrocketed after the tweets of a businessman or the announcement of a company about its 1.5 billion \$ investment in “Bitcoin”.

Since the price of Bitcoin exceeded a thousand dollars and speculation on this currency continued to make it fluctuate until it exceeded 58 thousand dollars before it dropped (on February 22, 2021) and reached to less than 53 thousand dollars, the questions and inquiries about what these Currencies are and how to trade them do not stop.

Undoubtedly, as the world is witnessing a new transaction, questions about it will continue. In this research, we are trying to answer many questions related to digital currencies, so that we may provide you through these answers what meets your needs of data about them.

Being the product of the technological and information revolution, the digital currencies are successfully introduced in 2009. And “Bitcoin” was the first currency in the world of digital currencies. Decentralized Cryptocurrencies are issued through mathematical algorithms through computer programs.

The work of these currencies has developed over the past decade, as their trading operations and monitoring were organized, through a “Block chain”, general ledger, which scrutinizes exchanges and acknowledges each account.

This data is available to all dealers through the password and user name obtained for the dealer on the network. And the miners are the main component of the digital currency market because they create currencies. They are the so-called digital currency issuers.

3.4 Cryptocurrency Spread

“Digital currencies are elite currencies. Dealing with them is still largely based on speculation while using them as money and as a method of exchange require a great deal of time. For example, so far dealing with them as wages is still limited, and the countries that have allowed the use of digital currencies for purchases or other services are still limited. However, there is an attempt to expand the market of digital currencies, and many are demanding digital currencies to be the payment tool for transactions on the Internet.

However, restrictions are imposed by many countries on the trading of digital currencies, not because of criminalization, but because these countries want to have their own virtual currency as is the case in

India and China. And it is expected that big companies such as “Facebook” and others are on the way to issue their own digital currencies.

3.5 Justifications for the Spread of Digital Currencies

Dealers in digital currencies are classified into several groups. There are countries and governments. Some of the countries validate dealing with these currencies in order to control this trade, know its volume and encourage central banks to control it.

However, other countries do not have the technical capabilities to control dealing with these currencies, so they resorted to banning dealing with them and even criminalizing it.

Moreover, some other countries found digital currencies an opportunity to get rid of the control of the global monetary system led by America and the dollar. At the top of these countries is China together with other countries which are impacted negatively by American economic and monetary policies especially after the global financial crisis in 2008.

It is worth noting that a number of individuals have been leading a trend which, despite lacking organization, encourages dealing with digital currencies by those who are empowered technologically in order to break the American monopoly. Obviously, they believe that weakening dollar is attained by the existence of an alternative that is not under the control of states. Undoubtedly, this will lead to the collapse of America economy, or at least the demise of its authority which is based on the oppression of many countries and the plunder of their wealth.

The above divisions may reflect ideological policies or the interests of countries. However, some other parties including specific institutions and individuals are looking for profit. Cryptocurrencies are a new market, and new markets usually claim that their early pioneers reap huge profits, so many seek to gain this advantage.

Ostensibly, because of their good knowledge of technology from one side and their desire for quick profit to meet their needs and aspiration for a better life, and access to conveniences and pleasure, young people are the most popular group in dealing with these currencies.

3.6 Digital Currencies and the Economy

Before digital currencies have come to life and before their spread, the global economy was suffering from an excessively high rate of dealing in the financial and monetary economy (stock exchanges, debt purchases, and speculation) over the value of the real economy (productive and service). Therefore, after the global financial crisis in 2008, alarm was rung to reconsider the issue of financing through the debt mechanism and replace the regulations of participation in it. So that, a state of stability is created, and financial and monetary transactions better reflect real economic performance.

According to statistical figures published in various media, the value of the digital currency market ranges from \$900 billion to its peak about \$1 trillion, which represents 1.13% of the value of global GDP in 2019 equivalent to \$87.8 trillion.

On the other hand, these currencies will have negative effects on the economy of many countries that do not have advanced technological systems to deal with the owners of these currencies. Transactions

taxes will be evaded, and these digital currencies will allow money entry and exit and entry without the control of central banks as the digital currencies transactions of buying and selling will be via the Internet. Moreover, dealing in these currencies is nothing more than speculation, and this means that money that was supposed to be invested in real digital financial economy and help create job opportunities is wiped away from the markets of those countries, especially third world countries. Consequently, this helps in the spread of unemployment in these countries and the deterioration of their productive and service economies.

3.7 Cryptocurrency Prices

It is no secret that the global economy has been experiencing hindrances since the global financial crisis in 2008, and then Corona pandemic impedes the fragile recovery in economic growth rates. This has resulted in the collapse of financial markets, a decline in global trade rates, and an increase in recession rates, high unemployment rates, as well as the fears that the global economy will enter a state of recession.

Under these circumstances, it is normal that attention is focused on speculation. However, the traditional speculative markets are closely related to the economic crisis that the world is going through. Consequently, speculation on oil and gold is no longer a safe and secured profit. So, you may ask how speculations on oil take place when the demand for it is declining and countries and traders' reservoirs are filled with large quantities. Likewise, you may ask how gold speculation takes place when it is pegged to the dollar, and when the conditions of the global economy as well as the American economy are not good. As there was a need for a new market, virtual currencies made use of the opportunity. And the bombardment of informational advertising of rapid profit helped the rush towards investing in digital currencies.

3.8 Cryptocurrency: Key Risks

Numerous are the risks related to digital currencies due to their danger to the cybersecurity aspects. It is a breeding ground for money laundering operations. So, drug trafficking networks, slave trade, arms trade, and other illegal trade will resort to dealing in the cryptocurrency market, as an interesting field away from the supervision of banks and financial institutions, in order to carry out laundering operations for their wealth.

Therefore, the spread of trading in digital currencies will be a new burden in the face of security agencies, especially in countries that suffer from high crime rates and money laundering practices. Moreover, gang members will easily search for and find opportunities in this market to finance their operations away from banks and security devices.

3.9 Cryptocurrency Laws

So far, there are no laws regulating dealing in digital currencies neither in terms of the nature of buying or selling, nor in terms of the criminalization of violations that occur in this market. And cases of violations, fraud, or non-fulfillment of obligations are common to take place in any human interactions.

However, whenever such violations multiply, countries, especially those that legalize digital currencies trade, will be obliged to issue laws regulating their work.

But it is a matter of time, and whenever a first experience digital currency law is issued, the rest of the countries will seek to benefit from it. And their role is restricted to deleting, adding or modifying this law. However, probably, it is the success of digital currencies that has prompted the issuance of a unified international law.

3.10 Cryptocurrency Predictions

Like other phenomena, accepting cryptocurrencies have been encountered by many pitfalls especially in third world countries. However, time is successful in making digital currencies trade imposed on the world, especially after many major capitalist economies succeeded in dealing with it and monitoring it by the central banks.

Perhaps, the biggest weakness of digital currencies is that they are denominated in dollars, which means that they are not yet independent. The fact that the dollar is an important factor in its value and circulation makes digital currencies just a new monetary instrument added to the basket of other international currencies.

However, we are still at the beginning of the experiment, and perhaps the entry of countries such as India and China as well as major companies in digital currencies makes us in front of various results that fluctuate the balance of the global monetary system.

In a report published by the Canadian Financial Post, Ruchir Sharma questions the extent of the dollar's ability to maintain its leading position after 100 years of dominating the global economy and the alternatives that may threaten the throne of the American currency.

Only 5 countries preceded the United States in imposing its currency on a global level starting from the middle of the 15th century AD. These countries are Portugal, Spain, the Netherlands, France and Britain, each of which dominated for an average of 94 years.

During the past period, many competitors to the dollar appeared, they fail to shake its position. Europe had pinned hopes on the euro when it was launched in 1999. Unfortunately, it failed to gain the world's confidence due to doubts about the effectiveness of the single currency in a region that includes a large number of countries. Moreover, the Chinese Yuan failed to compete, but for the exact opposite reason, which is fears of governmental dominance in a one-party state.

Because of the stability of the dollar and its global control even after the Corona crisis and its ensuing closure measures, American officials were confident that printing dollars in unlimited quantities would not undermine its position and would not lead to serious consequences for the American economy.

3.11 Criteria for Entering the World of Digital Currencies

In spite of being an exciting and attractive market for investors as they promise to achieve wealth in a short period of time, cryptocurrencies are full of risks and volatility.

According to a report in the American inspiration feed website, anyone who is excited about starting the journey of digital financial investment in cryptocurrencies should know and get adhered to a set of simple rules in order to avoid losses and shocks and increase profit opportunities.

The site adds that these rules and recommendations are important not only for securing digital financial investment and ensuring profit, but also for providing digital financial investment strategies and risk management.

Although cryptocurrencies main advantage is that they are designed to be safe and secure, there are additional steps for one to take to be extra careful.

Despite the fact that digital currency transfers depend on “blockchain” technology which relies on digital encryption to protect personal data, more savings is secured when an investment wallet of enhanced security features is chosen.

And wallets managed without an Internet connection are often the best choice, since it is very difficult to hack and manipulate them since the data is located on a hard disk or (USB) and is not stored by relying on cloud storage technology.

3.12 Key Points of the Digital Financial Investment Strategy

First: When investing in digital currencies, you should adhere to the concept that you should risk only what you are prepared to lose as this field is full of risks and market fluctuations. For this reason, the profits are virtual compared to traditional digital financial investment.

Second: You should always balance the potential risks and rewards, make sure that your investments are diversified and logical, and know how much money you risk losing so that your experience in this field is fruitful and long-term.

Moreover, one of the popular strategies in the cryptocurrency market is to buy a specific currency and keep it throughout life, regardless of price fluctuations. This made many people make profits despite market fluctuations.

Third: Be careful of hesitation, and this point is related to the second advice. Anyone who is familiar with the cryptocurrency market knows that prices rise and fall dramatically, which allows for huge profits, and it is very important for investors to remain calm and avoid selling out of panic when prices start to drop drastically.

This is because most cryptocurrency prices tend to adjust themselves after days, so rushing to forfeit them with the first jolt will cost you money loss from your original investment and potential profits.

In general, digital financial investment in the field of digital currencies is supposed to be long-term, and only those with experience and patience will take part in it.

Fourth: Diversification is the biggest gain. Although Bitcoin is the most popular and famous digital currency, it is not the only option for investors. Thus, there is important advice that beginners should know, which is the importance of diversifying digital financial investment.

Buying bitcoin is a good idea; however, it is very expensive at the moment, and there are many alternative currencies that are equal to or even superior to Bitcoin, such as Ethereum, Ripple and Lite

coin. These are excellent options for beginners looking for inexpensive and growing currencies in the market.

Fifth: Be careful of fraud. Unfortunately, this growing market is full of scammers, so you should be aware of the scams and traps that are set by tempting huge returns that may seem illogical. Also, you should be careful of giving away your personal keys and addresses to other people as this is the easiest way for hackers to hack your account and steal your balance.

There are other types of tricks that you are supposed to pay attention to such as phishing attacks with messages that carry tempting links, so you should be cautious of strange links that ask you to re-enter sensitive data such as passwords when you open them. When you fall into this trap, you are simply giving your confidential data to a gang of criminals.

Finally, many investors talked about another trick which is receiving calls from government institutions concerned with taxes and income, telling you that you have made profits from your digital investments and asking you to give them your data privately, so they transfer your profits to you.

In any case, you should never disclose your financial data and passwords over the phone. And remember that government agencies and institutions do not answer the phone or use it for these purposes.

Sixth: Conduct Constant research. Knowing that the cryptocurrency market is growing and currently it is in the process of formation, and it changes every day, you should always continue to learn more about this field. Therefore, you are supposed to stay informed of the latest events and laws regulating this trade as well as market trends and the impact all of this have on your investments.

Undoubtedly, you should not rely in your decisions on hype, rumors and superficial impressions. Always research and think well to make correct decisions, and this is very important in the presence of many fake and even worthless digital currencies that have begun to appear.

And remember that if the currency has no actual use in real life, its value, no matter how high, will collapse in the end, and whoever invests in it will lose their money.

3.13 The Fourth Topic: Digital Currencies in the Future

As countries around the world are moving towards issuing their own digital currencies, many questions are asked about the nature of financial transactions and their feasibility in the future. In a report published by the American “Bloomberg” website, Andy Mukherjee says that the future financial system will be based on the Internet. But when it comes to making payments that depend on the delivery of a product, service, or asset, current technology will become awkward as everything is online.

This experience is worrisome for more than one reason. Many central banks fear the growing impact of digital currencies such as Bitcoin.

Others are concerned about the growing market power of e-commerce and payment services companies which hold huge data from billions of transactions.

Moreover, the intense competition between the United States and China for financial dominance is another reason to make issuance of cryptocurrencies worrisome. However, in the midst of the growing

controversy over the future of cash transactions, the average user is wondering about the benefits that he may derive from dealing with cryptocurrencies.

3.14 Pitfalls in the Face of Digital Currencies

The vast horizons of opportunities and risks entail challenges that are difficult to deal with. China can put a limit for the electronic Yuan and restrict the use of platforms, such as the “Ant” website, in particular. Therefore, open societies are supposed to proceed cautiously by putting a cap on cryptocurrency accounts.

The magazine emphasized the importance of the readiness of governments and financial companies for a long-term transformation in financial operations. And this is extremely important just as the jump towards coins or payment cards is. This would prompt the strengthening of privacy laws, reforming central bank management methods, and preparing retail banks to play a more marginal role.

In fact, government cryptocurrencies are the next great experiment in finance, and they promise to be far more important than mediocre ATMs.

What is the future of digital currency?

According to Musk, cryptocurrency is a good idea in many ways. Although he is optimistic about its future, he believes that this should not be at the expense of the environment. He said he has no intention of selling the Bitcoins his Tesla bought and intends to use them in transactions once mining shifts to more sustainable energy such as solar and wind energy. He added that he will look at other cryptocurrencies that use less than one percent of the energy used to mine Bitcoin.

However, what he announced sparked widespread controversy on social media, and he was criticized for his contradictory tweets.

Alex Mashinsky, founder and director of cryptocurrency company Celosias, told BBC Trending: “Elon Musk had a very short affair with Bitcoin, I think if he didn’t realize who he married to. I know Tesla represents green cars, but these cars use the same amount of electricity as mining Bitcoin, so I think it was a premature divorce between Elon and Bitcoin, and I’m sure crypto trading would work fine without Elon Musk.”

4. Analyzing the Content of Digital Currencies in Companies

4.1 Study Population and Sample

The field study community is represented by the managers of many Iraqi companies, professors of Iraqi universities, and financialists from the finance and audit offices. The researcher distributed 100 questionnaires to the various categories of the field study sample. The following table shows the number of both the distributed as well as the received (correct) questionnaire lists:

Study categories	sample	survey lists		
		distributed	received (correct)	
		The number	The number	percentage
Financial professionals	40	32	40%	
Accountants in the financial and auditing offices	60	59	60%	
Total	100	91	100%	

4.2 Data Collection Methods

In obtaining the primary data from the field study sample, the researcher relied on the questionnaire method whether distributed through the electronic accounts of the study sample via the Internet, or through personal interviews to identify the opinions and trends of the study sample regarding the extent to which there are shortcomings in the current framework for investment in digital currencies in light of the necessities of criteria for preparing the requirements for accounting digital financial investment. These research instruments study the extent to which the multiplicity of business models and the usual activity of enterprises as well as the economic nature of the transaction practice lead to a multiplicity of financial models for digital currencies.

4.3 Questionnaire List Design

The questions are divided into two parts:

The first part: this part includes a set of questions related to testing the first hypothesis which states that there are no statistically significant differences between the averages of the two groups of the study sample regarding the presence of shortcomings in the current framework for investing in digital currencies in light of the necessities of criteria for preparing requirements for digital financial investment at a 5% significance level.

The second part: This part of the questionnaire list includes a set of questions related to the test of the second hypothesis which states that there are no statistically significant differences between the average answers of the two categories of the study sample regarding that the multiplicity of business models, the usual activity of enterprises and the economic nature of the transaction practice leading to a multiplicity of financial models for Cryptocurrencies at a 5% significance level.

The researcher was keen to make the questions of the questionnaire list clear, simple and easy to understand. The five-point Likert scale was used to measure the responses of the sample vocabulary, with the scale ranging from 1 to 5 as follows:

Levels of consent for survey questions

Degree of Consent				
1	2	3	4	5
Strongly agree	Agree	Neutral	Disagree	Strongly disagree

4.4 Testing the Research Hypotheses

Hypotheses	Average	Deviation	T test	
			value	significance
No statistically significant differences between the average answers of the two groups of the study sample regarding the presence of shortcomings in the current framework for investing in digital currencies in light of the necessities of criteria for preparing digital financial investment requirements for investment at a 5% significance level.	2.9	0.6	1.5	0.2

According to the data of the previous table, the researcher concluded that there are no statistically significant differences between the average answers of the two categories of the study sample, regarding the presence of shortcomings in the current framework for investing in digital currencies in light of the necessities of criteria for preparing requirements for accounting digital financial investment at a 5% significance level. To clarify, the average of the answers was 3.4, which is a high value, and the T test result indicates that the significance value of the test was 0.2. This value means that there is no statistical significance as the level of significance is greater than 0.05. Therefore, there is homogeneity between the opinions of the two groups of the study sample, and accordingly, the first hypothesis is accepted.

The first hypothesis / analysis of variance	Average	Deviation	T test	
			Value	Significance
There are no statistically significant differences between the average answers of the two groups of the study sample regarding the presence of a shortage in the current framework for investing in	2.1	0.4	1.6	0.3

currencies

By analyzing the results presented in the previous table, it is noted that there are no statistically significant differences between the average answers for the two categories of the study sample regarding the existence of shortcomings in the current framework for cryptocurrencies accounting for in light of the requirements of international financial reporting criteria at a 5% level of significance. To clarify, the level of significance is 0.4 which is greater than 5%. This confirms the validity of the first hypothesis.

	The second part	Expected average	deviation	opinion
1	The usual activity of the facility being a factor, affecting the selection of the metric associated with the digital currency	4.3	0.6	Strongly agree
2	The company's business standard being a factor, affecting the selection of the appropriate measure of investment in digital currency.	4.3	0.7	agree
3	The economic substance of the transaction being a factor, affecting the selection of the appropriate measure of investment in digital currency.	3.4	0.8	Strongly agree
4	The difference in the usual activity of the establishments regarding the digital currency leading to the difference in the financial treatment from one establishment to another	3.5	0.5	agree
5	The difference in the business criteria of the establishments leading to the difference in the financial treatment from one establishment to another	4.4	0.7	agree
6	The difference in the economic nature of the transaction leading to the difference in the financial treatment from one facility to another	3.6	0.7	agree
7	considering differences in usual activity, business models, and the economic nature of transactions when choosing the appropriate measure to invest in cryptocurrencies, one achieves the following: the objectives of general purpose financial reports and the quality of the data published in the financial reports	4.3	0.9	agree
8	The appropriate measure of investing in cryptocurrencies	4.9	0.4	Strongly

being the measure based on the use of fair value measures in the event of an active market for the trading of those currencies and cost measures being an alternative in the absence of an active market

agree

The first hypothesis test: To test the hypothesis, the t-test was relied upon. The following table shows the results of the t-test for this hypothesis, which is the first hypothesis:

Hypothesis	Average	Deviation	T test	
			Value	Significance
There are no statistically significant differences between the average answers of the two categories of the study sample regarding the multiplicity of business models, the usual activity of the establishments, and the nature of the economic inequity of the transaction, which leads to the multiplicity of financial models for digital currencies at a level of significance of 5%.	4.3	0.5	0.3	0.6

According to the data of the previous table, the researcher concluded that there are no statistically significant differences between the average answers of the two categories of the study sample regarding the existence of shortcomings in the current framework for investing in digital currencies in light of the necessities of international accounting reporting criteria at a 5% significance. To clarify, the average of the answers is 3.4, which is a high value, and the T-test result indicates that the moral value of the test was 0.2, and this value means that there is no statistical significance, as the level of significance is greater than 0.05%. Therefore, there is homogeneity between the opinions of the two groups of the study sample, and accordingly, the first hypothesis is accepted.

Moreover, the researcher reached the same conclusion of accepting the first hypothesis by using the F-test. The following table shows the results of descriptive statistics for the comparison between the opinions of the two groups of the same regarding years of experience and the results of testing the presence or absence of statistically significant differences among the average responses, using F-test:

Hypothesis	F test	
	Value	Significance
There are no statistically significant differences between the average answers of the two categories of the study sample regarding that the multiplicity of business models, the usual activity of the establishments and the economic nature of the transaction leading to the multiplicity of financial models for digital currencies at a significance level of 5%	0.5	0.6

By analyzing the results presented in the previous table, it is noted that there are no statistically significant differences between the average answers for the two groups of the study sample regarding the existence of shortcomings in the current framework for investing in digital currencies in light of the necessities of criteria for preparing requirements for digital financial investment to invest in a 5% significance level as the level of significance (0.05) is greater than 5. This means that the first hypothesis is validated.

5. Findings and Recommendations

The research aimed to study and analyze the financial pitfalls of digital currencies in the light of the current financial framework of international criteria for the preparation of digital financial investment requirements for accounting, and the researcher reached the following results:

- 1) "A digital currency is a digital asset (has no physical form), produced through computer programs and is not controlled by a government or central bank, and acts as a medium of exchange according to the principle of peer-to-peer through the Internet based using both encryption and Blockchain technology. The most prevalent example of digital currencies is Bitcoin, and its issuance dates back to 2009.
- 2) There has been a large presence of digital currencies in an unprecedented way globally. At the end of April 2018, the number of digital currencies worldwide exceeded 1,500 currencies with a market capitalization of \$400 billion. And even more is being improved. It's worth to mention that each type has unique characteristics.
- 3) The reason for acquiring and obtaining digital currencies vary as it can be acquired as a medium of exchange, or as an investment tool- a commodity for the purpose of selling for the company benefit or for someone else benefit (intermediary).
- 4) Dealing in digital currencies is encountered by many financial pitfalls, and the reason for this is due to the nature and qualitative characteristics of these currencies, the diversity of purposes for the acquisition of digital currencies by enterprises, as well as the absence of an international accounting criterion that defines the financial treatment of these currencies in various cases.

- 5) There is no agreement on a specific accounting criteria for investing in digital currencies. the researchers and financial professional organizations have different opinions about the classification of these currencies as to whether they are considered cash or the like, or they are considered a financial asset other than cash, or as an investment tool, or as an intangible asset, or considered a commodity stock, which may mean the possibility of the emergence of a new class of assets.
- 6) The results of the statistical analysis of the data of the field study showed the acceptance of the first hypothesis which talks about the absence of statistically significant differences between the average responses of the two categories of the study sample regarding the existence of shortcomings in the current framework for investing in digital currencies in the light of the necessities of criteria for preparing requirements for digital financial investment at 5% significance level.
- 7) The results of the statistical analysis of the data of the field study showed the validity of the second hypothesis which states that there are no statistically significant differences between the average answers of the two categories of the study sample regarding that the multiplicity of business models, the usual activity of the establishments and the nature of the economic practice of the transaction leading to the multiplicity of financial models for digital currencies at a significant level of 5%.

6. Research Recommendations

- 1) The importance of creating criteria on requirements for digital financial investment by issuing an accounting criteria or guidance that will enable the financial treatment overcome the various pitfalls related to dealing with digital currencies.
- 2) Conducting many scientific researches in the future related to digital currencies in the field of tax accounting.
- 3) Conducting many scientific researches in the future related to digital currencies in the field of auditing, and its impact on the role of the external auditor.
- 4) The importance of establishing the necessary legislation and legal controls by the governments of countries that do not allow the use of digital currencies in any illegal business.

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