



Future of Crypto Assets in India

This editorial is based on [“Let’s take an inclusive approach to the regulation of crypto assets”](#) which was published in Livemint on 14/09/2022. It talks about the future of crypto currency in India and related issues.

For Prelims: Blockchain Technology, Market Volatility, Money laundering, United Nations Conference on Trade and Development Report 2021, Bitcoin, El Salvador, Wannacry virus, Minimum Reserve System, Digital Rupee

For Mains: Current Scenario of Crypto Regulation in India, Grey Areas Regarding Crypto-Currency, Central Bank Digital Currency

Cryptocurrency has grown in size and popularity among investors to facilitate the financial activities such as buying, selling and trading trading in India and around the world. According to the [United Nations Conference on Trade and Development Report 2021](#), **7.3%** of Indians owned cryptocurrency in **2021**.

As much appreciable as it is that India is rapidly moving towards **digitisation** in almost every aspect of life, an underlying concern that needs immediate attention is that at present, **India does not have any regulatory framework to govern the crypto assets market.**

The absence of a regulatory framework not only **creates uncertainty for businesses** looking to enter this space, but also **exposes investors to avoidable frauds**. An unregulated ecosystem can also facilitate **money laundering**, fraud and **terror financing**.

What is Cryptocurrency?

- A cryptocurrency is a **medium of exchange**, such as the rupee or the US dollar, but is **digital in format** that uses **encryption techniques** to both control the creation of monetary units and to verify the exchange of money.
 - **Bitcoin** is considered to be the world’s best known cryptocurrency and is the largest in the world according to **market capitalisation**.
- Most **cryptocurrencies are not regulated by national governments**, they are considered alternative currency or means of financial exchange that are outside the scope of state monetary policy.
 - However, In September 2021, **El Salvador** became the first country in the world to introduce **Bitcoin** as legal tender.

Where does India Stand in terms of Regulating Cryptocurrency?

- In **2017**, the **Reserve Bank of India (RBI)** issued a warning that **virtual currencies/cryptocurrencies are not a legal tender in India**.

- However, no ban on virtual currencies took place.
- In **2019**, RBI issued that **trading, mining, holding or transferring/use of cryptocurrencies** is subject to punishment in India with a financial penalty or/and imprisonment up to 10 years.
 - RBI also declared that it may launch digital rupee as a legal tender in India in future.
- In **2020**, the [Supreme Court of India](#) removed the ban on cryptocurrencies imposed by RBI.
- In 2022, the Government of India clearly mentioned in the [Union budget 2022-23](#) that-the transfer of any virtual currency/cryptocurrency asset will be subject to **30% tax deduction**.
 - Gifts in the form of virtual assets/cryptocurrencies will be taxed in the hands of the receiver.
- In **July 2022**, The [Reserve Bank of India \(RBI\)](#) recommended a ban on cryptocurrencies citing '**destabilising effects**' for the country's monetary and fiscal health.

What are the Grey Areas Regarding Crypto-Currency?

- **Volatile Nature:** Cryptocurrency is speculative. Investing in high amounts leads to [Market Volatility](#), meaning prices fluctuate and people may suffer big losses as a result.
- **Reliability and Security:** Cryptocurrency for its characteristic of be a digital mode of transaction, it has become a very **common platform for hackers, terror finance, and drug transaction**.
 - This has brought tiredness among the people to a larger extent as it brings **lesser security** and lack of reliability.
 - For example, [Wannacry virus](#) was used by criminals to make ransom payments in Bitcoin.
- **Lack of Regulatory Framework:** The Indian government is following a **wait and watch policy towards cryptocurrencies**. Absence of regulatory authority has led to increased chances of fraud threat to investor protection and **movement of money in the economy**.
- **Flooding Advertisement:** There has been an explosion of advertising in the crypto market to lure people into speculating, because it is seen as a **quick way to make money**. However, there is concern that these efforts are to **mislead youth through "overpromising" and "non-transparent advertising"**.
- **Stock-Market Issues:** The [Securities and Exchange Board of India \(SEBI\)](#) has pointed out that it does not have control over cryptocurrency "**clearing and settlement**" and cannot provide counterparty guarantees as it does for stocks.
 - In addition, cryptocurrency has not been defined as either a **currency, commodity, or security**.
- **Scalability Concern:** The scalability of crypto remains a major concern, since it is based on **blockchain technology**. In blockchain technology, the data storage mechanism is **append-only**, that means it cannot be modified, and since the demand is growing, storage capacity remains limited.
- **Money Laundering:** There is a huge possibility that people might **start investing in** money laundering and it is very easy as one can send money from country to country without any accountability.
- **Possibility of Economic Disbalance:** Rising crypto currency market can disbalance the circular flow of money in the **Indian Economy**. The creation of cryptocurrency is very different from how actual cash is created in the economy.
 - For instance, In India, only the **RBI has the authority to create cash** only after maintaining the **Minimum Reserve System**. This creates a balance of demand and supply.
 - However, Cryptocurrency doesn't rely on the **financial institutional regulations** but are encrypted and protected which makes it **difficult to increase the supply of money** over a predefined algorithm rate.
- **No Ombudsman:** Currently there is **no forum**, where a user can possibly reach out for any help or **grievance redressal mechanism** related to crypto assets, as a result of which consumers are exposed to **transactional and informative risks**.

What Should be the Way Forward?

- **Defining Cryptocurrency:** Cryptocurrencies **should be explicitly defined** as securities or other financial instruments under the relevant national laws.
- **Linking Startup Ecosystem with Crypto:** [India's startup ecosystem](#) can be revitalised by **cryptocurrency** and [blockchain technology](#), which can create job opportunities, from

blockchain developers to designers, project managers and business analysts to promoters and marketers.

- **Lynchpin for International Cooperation:** Because **crypto assets transcend national borders**, they serve as a lynchpin for international coordination of **financial markets governance**.
 - However, crypto-asset regulation is still in its infancy in many **emerging and developing economies (EMDEs)** like India.
 - A **risk-based and context-specific international cooperation to regulate cryptocurrency flow** is crucial.
- **India Towards CBDC:** The **Finance Minister of India** announced the introduction of a **Central Bank Digital Currency (CBDC)** for India in the form of **Digital Rupee**. It will give a big boost to the **Indian digital economy**.
 - Digital currency will also lead to a more efficient and cheaper **currency management system**.
 - However, **CBDC should exist in harmony with other cryptocurrencies** to reap the full benefits of the Blockchain technology.

Drishti Mains Question

“Time is ripe for India to move beyond its wait and watch policy for cryptocurrencies”. Comment.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q.1 With reference to “Blockchain Technology”, consider the following statements: (2020)

1. It is a public ledger that everyone can inspect, but which no single user controls.
2. The structure and design of blockchain is such that all the data in it are about cryptocurrency only.
3. Applications that depend on basic features of blockchain can be developed without anybody’s permission.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 1 and 2 only
- (c) 2 only
- (d) 1 and 3 only

Ans: (d)

Q.2 The terms ‘WannaCry, Petya and EternalBlue’ sometimes mentioned in the news recently are related to (2018)

- (a) Exoplanets
- (b) Cryptocurrency
- (c) Cyber attacks
- (d) Mini satellites

Ans: (c)

Mains

Q.1 What is Cryptocurrency? How does it affect the global society? Has it been affecting Indian society also? (2021)

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