Cryptocurrencies

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Why in news?

- The Inter-Ministerial Committee on Virtual Currency constituted under the Chairmanship of Subhash Chandra Garg has submitted its report along with Draft Bill ‘Banning of Cryptocurrency & Regulation of Official Digital Currency Bill, 2019’.

What are virtual currencies?

- Virtual currency is a digitally tradable form of value, which can be used as a medium of exchange, or a stored value which can be utilised later. It does not have the status of a legal tender. A legal tender is guaranteed by the central government and all parties are legally bound to accept it as a mode of payment.
- ***Cryptocurrency is a specific type of virtual currency, which is decentralised and protected by cryptographic encryption techniques(or blockchain technology).*** Bitcoin, Ethereum, Ripple are a few notable examples of cryptocurrencies. Decentralisation implies that there is no central authority where records of transactions are maintained. Instead, anyone can create a transaction. This transaction data is recorded and shared across multiple distributor networks, through independent computers as shown in Figure. This technology is known as Distributed Ledger Technology/blockchain technology.

What are the present regulations in India with respect to cryptocurrencies?

- In December 2017, the Ministry of Finance issued a statement which clarified that virtual currencies are not legal tender and do not have any regulatory permission or protection in India.

- In the 2018-19 budget speech, the Finance Minister announced that the government does not consider cryptocurrencies as legal tender and will take all measures to eliminate their use in financing illegitimate activities or as a part of the payment system.
- In April 2018, RBI notified that entities regulated by it should not deal in virtual currencies or provide services for facilitating any person or entity in dealing with or settling virtual currencies
- Recently, SC held that Cryptocurrencies are in the nature of commodities and hence they can not be banned. RBI approached the SC for reviewing this judgement.

The proposed Draft bill

- **Cryptocurrency cannot be** used as legal tender or currency at any place in India.
- The bill prohibits everyone to mine, generate, hold, sell, deal in, issue, transfer, dispose of or use Cryptocurrency in the territory of India.
- The use of **Distributed Ledger Technology** for creating a network for delivery of any financial or other services or for creating value, without involving any use of cryptocurrency ***is not prohibited.***
- Direct or indirect use of Cryptocurrency shall be punishable with **fine** or imprisonment of **1 year** which may be extended to **10 years or both.**

Why has the Committee recommended banning cryptocurrencies?

- **Fluctuation in prices**:
  - Cryptocurrencies are subjected to market fluctuations and the lack of centralised authority makes it ***difficult to regulate them.*** For instance, in December 2017, the value of Bitcoin cryptocurrency was around USD 20,000 per coin,

which reduced to USD 3,800 per coin by November 2018.

- **The risk to consumers**:
  - There are several vulnerabilities in the design of cryptocurrencies which leave consumers open to the risk of fraud. These include phishing cyber-attacks and Ponzi schemes. Further, cryptocurrency transactions are irreversible, which means once a transaction is done, there is no way to remedy it.
- **Impact on power consumption**:
  - Validating transactions in a distributed network involves high electricity consumption and requires high computation power.
  - The Committee noted a study which estimated that 19 households in the USA can be powered for one day by the electricity consumed in a single transaction of the bitcoin cryptocurrency.
- **Potential use for criminal activity**:
  - The Financial Action Task Force, an intergovernmental organisation to combat money laundering, in its report (2014) observed that virtual currencies provide ***greater anonymity than traditional payment methods.*** This makes them more vulnerable to money-laundering and illicit funding for terror financing. The Committee noted that the ***decentralised nature and the anonymity*** which cryptocurrencies provide makes it ***difficult*** for law enforcement authorities ***to track down people*** involved in illicit activities.