CRYPTOCURRENCY: IMC PANEL FAVOURS BAN IN INDIA

Context:

- The Inter-Ministerial Committee on Virtual Currencies headed by finance secretary **Subhash Chandra Garg** recently submitted its report to the Government.

What is Cryptocurrency?

- A cryptocurrency is a digital or virtual currency that uses cryptography for security.
- Cryptocurrencies use decentralized technology to let users make secure payments and store money without the need to use their name or go through a bank.
- They run on a distributed public ledger called blockchain, which is a record of all transactions updated and held by currency holders.
- The most common cryptocurrencies are Bitcoin, Ethereum, Ripple, and Litecoin.

Inter-ministerial committee:

- The government had constituted the inter-ministerial committee on November 2, 2017 under the chairmanship of Secretary of Economic Affairs, with Secretary of MeiTY, Chairman (SEBI) and Dy. Governor of RBI as Members, to study the issues related to virtual currencies and propose specific action to be taken in this matter.
- The group has recently submitted its report to the government recommending a complete ban on cryptocurrencies.
- The committee has also proposed a draft bill 'Banning of Cryptocurrency & Regulation of Official Digital Currency Bill, 2019'.
- They will now be examined in consultation with all concerned departments and regulatory authorities before the government takes a final decision.

Key Recommendations of The Committee:

- A complete ban on all forms of private cryptocurrencies.
- It pitched for the introduction of an official digital currency with a status of a legal tender and appropriately regulated by the Reserve Bank of India.
- For examining and developing an appropriate model of digital currency in India, a specific group has to be established by the department of economic affairs with participation by the RBI, department of financial services and the ministry of electronics and information technology (MeitY).

- It also mandates a fine and imprisonment of up to 10 years for the offences of mining, generating, holding, selling, dealing in, transferring, disposing of, or issuing cryptocurrencies.
- The panel backed use of distributed ledger technology (DLT) or blockchain for selected areas. It has asked the department of economic affairs to take the necessary measures to facilitate the use of DLT in the financial field after identifying its uses.
- It has also suggested the use of DLT to reduce compliance costs for know-your-customer (KYC) requirements.
- Data localisation requirements proposed in the draft Data Protection Bill may need to be applied carefully, including with respect to the storage of critical personal data so as to ensure that there is no adverse impact on Indian firms and Indian consumers who may stand to benefit from DLT-based services.

Why IMC has opted for a complete ban?

- All the cryptocurrencies have been created by non- sovereigns and are in this sense entirely private enterprises.
- There is no underlying intrinsic value of these cryptocurrencies back they lack all the attributes of a currency.
- There is no fixed nominal value of these private cryptocurrencies i.e. neither act as any store of value nor they are a medium of exchange.
- Cryptocurrencies have their own set of associated risks in the form of volatility in valuation, lack of liquidity, security and many more.
- These cryptocurrencies cannot serve the purpose of a currency. The private cryptocurrencies are inconsistent with the essential functions of money/currency, hence private cryptocurrencies cannot replace fiat currencies.
- A review of global practices show that they have not been recognized as a LEGAL tender in any jurisdiction. Committee also recommends that all exchanges, people, traders and other financial system participants should be prohibited from dealing with cryptocurrencies.
- The burgeoning use of cryptocurrencies in terror financing, ransomwares, illicit drugs, arms trade, cybercrime and child pornography is well-documented and it has also raised red flags among the security and law enforcement agencies.
- They also have the Potential for Tax Evasion.

Why Regulation should be preferred over an outright ban?

- Even though the currencies have no sovereign backup, no country has stepped forward with an complete ban except china. Many of the countries including Canada, Thailand, Russia and Japan, seem to be moving on the path of regulation, so that transactions are within the purview of anti-money laundering and prevention of terror laws.

- Even in china where there exists a complete ban, trading is just low but not non-existent.
- In terms of benefits, this could be a force multiplier in India's quest for financial inclusion, parallel to the electronic payment modalities such a digital wallets and Aadhaar Enabled Payment System.
- It could further reduce the cost associated with remittances, which brings annual earnings of close to 62 billion USD to India.
- It would also attract future business entrepreneurs, leading to innovation, generation of job and wealth creation in the due process of payments processing, e-commerce and taxation.
- Greater access to credit: The cryptocurrency ecosystem holds the potential to make asset transfer and transaction processing available to this vast market of willing consumers – once the required infrastructure (digital and regulatory) is put in place.
- And using the peer-to-peer mechanism of the blockchain technology, cross-border transfers and transactions may be conducted without complications as they are not subject to exchange rates, interest rates, transactions charges, or other levies imposed by a specific country.

Conclusion:

- Indian policymakers and administrators have time and again made clear their distaste for them, their existence owed almost entirely to advanced encryption technologies.
- The report completely fails to clarify why an outright ban be a superior choice to regulation, especially in a field driven by fast-paced technological innovations.
- Thus, instead of banning cryptocurrencies, India should be taking a better choice of taking the lead to draw a regulatory framework which brings the entire cryptocurrencies under the regulation of RBI and SEBI.
- India must be careful to differentiate between Cryptocurrencies and the blockchain technology. India should also explore the use of blockchain technology in areas such as education, health and agriculture.
- Thus, instead of shutting the doors for a new disruptive technology, India should try to engage them to put them for a better use.