2. Supreme Court Ruling on Cryptocurrency

Prelims Syllabus: Polity & Governance-Judiciary

Mains Syllabus: GS-I Indian Constitution- Historical Underpinnings, Evolution, Features, Amendments, significant provisions and Basic Structure.

Why in News?

- The Supreme Court set aside a ban by the Reserve Bank of India (RBI) on banks and financial institutions from dealing with virtual currency holders and Exchanges.

Highlights:

- Virtual currency is the larger umbrella term for all forms of non-fiat currency being traded online. Virtual currencies are mostly created, distributed and accepted in local virtual networks.
- The court held that the ban did not pass the "proportionality" test. The test of proportionality of any action by the government, the court held, must pass the test of Article 19(1)(g), which states that all citizens of the country will have the right to practise any profession, or carry on any occupation or trade and business.

Reasons for RBI to Ban Cryptocurrency:

- Owing to the lack of any underlying fiat, episodes of excessive volatility in their value, and their anonymous nature which goes against global money-laundering rules.
- Risks and concerns about data security and consumer protection on the one hand, and far-reaching potential impact on the effectiveness of monetary policy.
- The RBI argues that owing to a significant spurt in the valuation of many virtual currencies and rapid growth in initial coin offerings, virtual currencies were not safe for use.

Cryptocurrency:

- There is no globally accepted definition of what exactly is virtual currency. Some agencies have called it a method of exchange of value; others have labelled it a goods item, product or commodity.
- Cryptocurrencies have an extra layer of security, in the form of encryption algorithms. Cryptographic methods are used to make the currency as well as the network on which they are being traded, secure.
- Most cryptocurrencies now operate on the blockchain or distributed ledger technology, which allows everyone on the network to keep track of the transactions occurring globally.
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- This essentially meant there would be no central regulator for virtual currencies as they would be placed in a globally visible ledger, accessible to all the users of the technology.
- All users of such virtual currencies would be able to see and keep track of the transactions taking place.