

## Cryptocurrency in India

Recently the **Supreme Court** has **struck down a ban by the Reserve Bank of India (RBI)** on banks and financial institutions from dealing with **cryptocurrency** holders and exchanges. In 2018, the RBI had banned various banks from dealing with virtual currency exchanges and individual holders on the grounds that these currencies had no underlying fiat (a formal authorization).

After the circular of RBI in 2018 which ban crypto-currency, The **Internet and Mobile Association of India (IAMAI)** had **challenged the RBI's powers to bar** banks and financial institutions from dealing in such **digital currencies**.

### About Cryptocurrencies:

- There is **no globally accepted definition** of virtual currency. Few agencies have called it a method of exchange of value, while others have labeled it a goods item, product or commodity.
- The founder of bitcoin and the underlying technology called blockchain, Satoshi Nakamoto has defined bitcoins as a **new electronic cash system that's entirely peer-to-peer with no trusted third party**.
- This means that **all users** of currencies will be able to **keep track of the transactions** taking place.
- **Virtual currency** is an **umbrella term for all kind of non-fiat currency traded online**. They are mostly created, distributed and accepted in local virtual networks.
- On the other hand, **Cryptocurrencies have an extra layer of security, in the form of encryption algorithms**.
- Most cryptocurrencies now **operate on blockchain technology** which allows everyone on the network to keep track of the transactions which are occurring globally.

### Reason for the ban by RBI:

- Lack of any underlying fiat.
- Excessive volatility in their value.
- Lack of information on their design, use and operation.
- They may seriously disrupt the business models of commercial banks.
- The anonymous nature of cryptocurrency which goes against global money-laundering rules.
- Risks and concerns associated with virtual currencies regarding data security and consumer protection.
- It can impact on the effectiveness of the monetary policy.

### Internet and Mobile Association of India (IAMAI) arguments against the ban:

- **RBI action** was **outside its purview** as a non-fiat currency is not a currency as such.
- There were **no studies conducted** either by the RBI or by the central government.
- The **ban was solely made on moral grounds** and RBI should have adopted a wait-and-watch approach as taken by other regulators like Securities and Exchange Board of India (SEBI).

### Supreme Court's judgment on Cryptocurrency:



- The Court said that **till date RBI has not come out with a stand that any of the entities** regulated by it, **have suffered any loss** or adversely effected due to Virtual Currency exchanges.
- Hence, the **RBI circular is “disproportionate”** as it is **short on the following five-prong test to check proportionality**
  - The direct and immediate impact upon fundamental rights.
  - The larger public interest should be ensured.
  - The necessity to restrict citizens’ freedom.
  - Inherent harmful nature of the act prohibited
  - Possibility of achieving the same objective by imposing a less drastic restraint.
- The court also states that RBI did **not consider the availability of alternatives** before issuing the circular.
- The court said that **RBI could not be blamed for not adopting a “light-touch” approach** as adopted by other countries, as there could be no comparison with other countries such as the US, the UK, Japan, or Singapore were developed economies.
- Further, the court also pointed out the **Centre’s failure to introduce an official digital Currency** despite two draft Bills.

### Effects of Supreme court judgement on Cryptocurrency:

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- It will **help in the incorporation of blockchain technology.**
- Cryptocurrencies can act as **Alternative Investments** so as to hedge global volatility in the Finance market.
- It can be a crucial part of the **Industrial revolution 4.0.**
- It is also estimated that blockchain will **generate \$3.1 trillion in new business value by 2030** and allowing cryptocurrency will enable India to be part of this.
- **For India to become a world power, embracing emerging technologies** like cryptocurrency and blockchain **is a must.**

### Status of Virtual Currencies in the world:

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- Organizations across the globe have issued the warning while dealing with virtual currencies.
- A blanket ban of any sort could potentially push the entire system underground which in turn would mean that there will be no regulation.
- **Countries such as China, Russia, and Vietnam** have placed a **complete prohibition** on using cryptocurrency.
- Whereas **countries like the US, UK, Canda, Singapore, and Australia** have **accepted** the use of Virtual Currency in some form or the other.

### Future Outlook:

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- The **relief** for virtual currency investors and businesses **may be only temporary** as the Centre govt.in a draft law has proposed to ban all cryptocurrencies except a state-issued one.
- The **Centre may** introduce the bill to permanently **ban the cryptocurrencies** and to set up the basic infrastructure required **to issue state-owned cryptocurrency** and the digital rupee.
- But rather than imposing a blanket ban, the Govt. should **set up a new expert regulatory body** with capability in technology, economics and finance to deal with all aspect regarding cryptocurrency.

- RBI may come up with a **new framework or regulation** that deals with the reality of these technological advancements.
- The govt should also **designate virtual currency intermediaries** as reporting entities **under** the Prevention of Money Laundering Act (**PMLA**).
- A vibrant cryptocurrency segment could add more value to India's financial sector. Thus, in the era of growing technological innovation in the financial sector, it is critical to **strengthen the regulatory frameworks of India**.

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