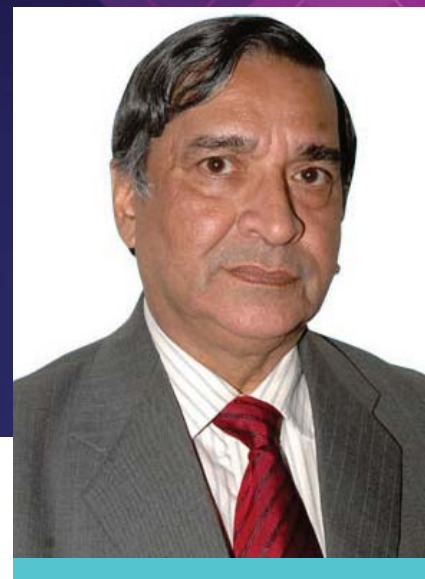


Virtual Currency Platform cannot be avoided

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Bitcoin is the new liking of investors. It has rocketed since March 2020 from US\$ 5000 to over US\$ 60,000 by middle of March 2021. Its supporters are predicting that it will resume its rise and move to US\$ 100,000 or higher. Not getting into the value of Crypto currencies the significant issue is that policy makers are finding legal ways to use this platform for growth and revival of economy.

But that does not make Bitcoin an alternative to the Dollar or any other official currency yet.

People round the globe are rushing in because of a lack of faith in government currencies. The Federal Reserve and other Federal Banks in US have crashed interest rates and are printing unimaginable amounts of money to pay for COVID relief measures and to stimulate damaged economies.

Bitcoin and other cryptocurrencies are now seen as a respectable investment class, and financial institutions are adding Bitcoin to their portfolios. Enthusiasts say Bitcoin is the new gold and that it will eventually replace the Dollar. Not so fast. Whatever Bitcoin is, is not money.

For Cryptocurrencies to seriously challenge existing currencies, they must be as easy to use as money is today and must have a fixed value, being tied to gold or something like the Swiss Francs so that they can be used for contracts. Unless both conditions are met, they won't be genuine alternatives to Dollar and other government manufactured money.

Can Blockchain Technology be controlled?

New Blockchain technology comprising two major technological innovations of distributed ledgers (all records are shared with and kept by all participants) and high-end -Cryptography (which makes hacking next to impossible), has enormous potential to produce and make digital goods, services, program -ming platforms, assets and currency in ways very different than the world has seen so far and costs, security and convenience highly beneficial to society. A dominant feature of the technology is creation of its own stock and currency, referred to as Crypto-tokens or simply tokens or coins, to raise capital and make payment for services rendered in making and working the blockchain platform.

Blockchain refers to a data base of transaction that is shared and maintained by a group of people or institutions. The vast majority of blockchains involve virtual currencies like Bitcoin. But corporations and governments have also become interested in ways to use the technology through reliable store of vast amounts of data.

Blockchain technology is extremely versatile and has been used to create programming and smart contract services platforms (Ethereum), global money transfer platforms (Ripple), music delivery services (Opus) and numerous other digital applications.

Crypto-currency Platform (Bitcoin) has High Market Valuation

Bitcoin is a digital token that can be sent electronically from one user to another, anywhere in the world. Bitcoin is also the name of the payment network on which tokens move. No single company or person runs the Bitcoin network. Instead, it is a decentralized network of computers around the world that keep track of all transactions. Because there is no central authority, users cannot be

forced into revealing their identities. This also keeps outside the control of any government or single company.

Its birth, however as a pure-play cryptocurrency platform (Bitcoin), which happens to be the most sought after digital asset today with valuation, at US\$ 1.1 trillion exceeding 40% of India's total equity market capitalization, has made blockchain technology and crypto - currency synonymous in common perception. Cryptocurrencies mimic official currencies and as such have, quite expectedly, faced opposition and opposition of governments and central banks. Further as many people around the world see Bitcoin as assets of limitless value, they have invested millions in it. Over seven million Indians who have reportedly made investments in Bitcoins and Cryptocurrencies intermediaries, like exchanges, not surprisingly, have developed a deep and vested interest in wanting the show to go on forever.

Governments, as the repository of public interests, have tough choice. They cannot allow the use of Crypto-tokens as currency for people and businesses to make and receive payments, substituting official fiat currency.

The solution lies in the government being able to separate the use as currency from all other applications and the blockchain industry developing technology and Crypto-tokens in such a way that its use as currency becomes impossible.

Crypto-tokens, like equities, are assets and should therefore, be treated as assets. SEBI, as the regulator should therefore be mandated to regulate the Crypto-tokens as assets. Profits made on purchase and sale of Crypto-tokens should be treated as capital gains for income tax purposes. The services rendered by blockchain platform, paid for in Bitcoins and other Crypto-tokens, do not, as is the case with other

services, require any recognition. Of course, if government agrees then the services bought and sold should be subjected to GST.

A ban on crypto-currencies can result in wealth erosion for about one crore Indian investors, including ten lakh traders, who are estimated to own assets collectively worth over Rs. 10,000 crores. Crypto entrepreneurs said that a ban won't just hurt their business but also lead to gains for foreign firms and increased action on the black market.

A complete ban will force self-regulated exchanges to shut down. It will also eliminate possible data avenues for the government and regulators around the crypto eco-system. A ban would lead to increased liquidity for black market and push people to transact in cash for buying and selling Bitcoin.

'The government should look at regulating Crypto currencies instead of a complete ban', investors and cyber-law experts give their opinion. Indian investors, however, will not face prosecution for prior actions if a ban is implemented. A ban is not a solution and that is primarily why the US, the UK and Singapore are working on regulation. It is understood that there are over 340 Crypto startups in India. A ban will erode wealth and will also prevent India in this innovation.

Finance Minister's Statement Raises Curiosity

The Finance Minister has indicated that not all windows on cryptocurrencies will be shut and a Cabinet note was being readied to formulate the next steps on the issue. Her comments were made in an interview on TV channel on Saturday, 13 March, 2021. This might have come as a big relief for the cryptocurrency industry which has been worried about a possible ban on its activities through a proposed legislation.

The Finance Minister said, "I have said

my view on this, saying the Supreme Court had commented on this cryptocurrency. Whilst we are very clear that the Reserve Bank may take a call on an official cryptocurrency or anything of that kind, from our side we are very clear that we are not shutting all options. We will allow a certain amount of window for people to use so that experiments in the blockchain, Bitcoin or whatever you may want to call it, the cryptocurrency experiments and FinTech, which depends on such experiments, will have that window available for them are not going to shut off, but what kind of a formulation even for a crypto will be the content of the Cabinet Note, which will get ready soon." There has been an intense debate over the status of cryptocurrencies and experts have debated over whether a complete ban was the best option or some amount of regulation is required to ensure the benefits like blockchain are harnessed and available to the FinTech Sector.

The government was set to introduce a bill in the Budget Session to ban private cryptocurrency, while putting in place a framework for a launch of a digital currency by the RBI.

The government intimated Parliament of its intension to move the "Crypto - currency and Regulation of Official Digital Currency Bill 2021" during the budget session. The proposed bill does not have the words "banning of" in its name, which was recommended by the Inter-Ministerial Committee of Ministry of Finance, RBI, Ministry of Electronics and Information Technology and SEBI in 2019. As the text has not been released, it is not known whether the Bill proposes to ban Cryptocurrencies. However, the background of the IMC Report and general discomfort of the government and RBI with cryptocurrency has made investors, exchanges and other intermediaries nervous, and fear the worst.

A Lok Sabha Bulletin in late January 2021 had said that one of the purposes

of the Bill was to prohibit all private cryptocurrencies in India, while provide certain exceptions to promote the underlying technology.

Stand of RBI

Reserve Bank of India has conveyed to the government to seek a ban on such instruments having already expressed its serious concerns.

While asserting that the technology of blockchain should be encouraged, the Central Bank has questioned the purpose of cryptocurrencies to be labeled as a currency. It has said that a currency is a sovereign right and cannot be assigned to any individual entity. The issue of these instruments being legal is also yet to be settled.

The RBI has also raised security risks linked to cryptocurrencies saying it could give rise to money laundering and terror financing, because of anonymity of the

transactions. RBI believes that the steps taken by the government to restrict black money flow would be undone if it allow cryptocurrency in the economy as a lot of illicit cash stashed overseas may return via this route.

In the first week of March 2021, RBI Governor has told The Times of India that the regulator had conveyed concerns to the government.

In 2018, RBI issued a circular asking banks and other entities regulated by RBI not to deal in virtual currencies or “provide services for facilitating any person or entity in dealing with or settling/virtual currencies”. This circular was quashed by the Supreme Court in March 2020 on the ground of it not being proportionate.

In recent week, RBI has also talked about bringing its own digital currency, which is different from cryptocurrencies.

The Centre has set up an inter-ministerial panel chaired by the Economic Affairs Secretary, which has submitted its report and the government is expected to take a decision on this issue.

The government, through MCA notification on wednesday 24 March 2021, has ordered companies to disclose the details of investment and trades in cryptocurrency/virtual currency in financial statements. The move is part of government efforts to assess the scale of such transactions and keep tabs on entities seeking to lure investors by promising high returns. Cryptocurrency exchanges view it as a positive step towards regulating the crypto assets in the country. ■

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