

TENDER CUT: THE HINDU EDITORIAL ON CRYPTOCURRENCIES AND REGULATION

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The government's statement about bringing in a [law on cryptocurrencies](#) is welcome, as it could put an end to the existing ambiguity over the legality of these currencies in India. The vagueness exists notwithstanding the fact that the government has, from time to time, suggested that it does not consider them to be legal tender. It has not, however, been able to channel this understandable disapproval — arising out of the fact that such currencies are highly volatile, used for illicit Internet transactions, and wholly outside the ambit of the state — into any sort of regulation. In 2018, the RBI did send a circular to banks directing them not to provide services for those trading in cryptocurrencies. But this was eventually set aside by the Supreme Court, which found the circular to be “disproportionate,” given that the central bank had consistently maintained that virtual currencies were not banned in India. Also, the RBI could not show that entities that it regulated were adversely impacted by exchanges dealing in virtual currencies. The Minister of State for Finance, Anurag Thakur, who on Tuesday confirmed in the Rajya Sabha that a Bill was in the offing, highlighted the complexity in regulation. He said, “Regulatory bodies like RBI and Sebi etc also don't have a legal framework to directly regulate cryptocurrencies as they are neither currencies nor assets or securities or commodities issued by an identifiable user.”

This legal ambivalence has not, however, been able to prevent cryptocurrencies from having a growing clientele in India. Their attraction may only grow now, given that the most well-known of them as also the most valuable, Bitcoin, has hit new peaks in price and is gaining influential followers such as Tesla founder Elon Musk. So, what will the Bill seek to do? Those associated with this niche but growing ecosystem will be worried about this question the most.

[Cryptocurrency](#) exchanges, which have sprung up, are reportedly lobbying with the government to make sure these currencies are regulated rather than banned outright. Smart regulation is preferable, as a ban on something that is based on a technology of distributed ledger cannot be implemented for all practical purposes. Even in China, where cryptocurrencies have been banned and the Internet is controlled, trading in cryptocurrencies has been low but not non-existent, as an India inter-ministerial committee found out. Despite this and the fact that most countries it studied had opted for regulation, this committee still went ahead to recommend an outright ban. Of course, it encouragingly also batted for an official digital currency as well as for the promotion of the underlying blockchain technology. The government must resist the idea of a ban and push for smart regulation.

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