

Bitcoin trade may come under SEBI

This August 3, 2016 illustration shows a Bitcoin sign in Hong Kong.

The government is considering the introduction of a regulatory regime for virtual or crypto currencies, such as Bitcoin, that would enable the levy of the Goods and Services Tax on their sale.

The new regime may possibly bring their trading under the oversight of the stock market regulator, Securities and Exchange Board of India (SEBI).

The idea is to treat such currency in a manner similar to gold sold digitally, so that it can be traded on registered exchanges in a bid to “promote” a formal tax base, while keeping a tab on their use for illegal activities such as money laundering, terror funding and drug trafficking.

Crypto-currency that is planned to be brought under the regulatory regime is a digital currency which allows transacting parties to remain anonymous while confirming that the transaction is a valid one. It is not owned or controlled by any institution – governments or private.

There are multiple such currencies — bitcoin, ethereum, ripple are some of the popular ones. Currently, they are neither illegal nor legal in India. “One bitcoin today is worth as much as 60 grams of gold. The market cap for all crypto-currencies has just crossed \$100 billion, with most of the increase coming in the past few months. On April 1, 2017, the total market cap was just over \$25 billion, representing a 300% rise in just over 60 days,” said a senior government official.

“The discussion on whether crypto-currencies should be banned or regulated has been on for some time. The pros and cons for both aspects were put forth in the meeting chaired by Finance Minister Arun Jaitley last month,” the official told *The Hindu*.

A proposal to ban such currency altogether was also considered at the meeting, but found few takers among top officials from the Ministries of Finance, Home Affairs and IT as well as SEBI, the Reserve Bank of India, the State Bank of India and NITI Aayog.

Bitcoins were in the news recently when during the two global cyber ransomware attacks — WannaCry and Petya — attackers sought about \$300 in bitcoin as ransom. Crypto-currency can also be used for a lot of legal activities — such as booking tickets, buying coffee or fast food, depending of which retailers accept such currency.

Why bitcoins are a bit risky

“Banning will give a clear message that all related activities are illegal and will disincetivise those interested in taking speculative risks, but it was pointed out it will impede tax collection on gains made in such activities and that regulating the currency instead would signal a boost to blockchain technology, encourage the development of a supervision ecosystem (that tracks legal activities and may also assist in tracking illegal activities) and promote a formal tax base,” said another official privy to the development.

Blockchain is basically a digital public ledger that records every transaction. However, the involved parties can remain anonymous and they transact under an id. Bitcoin is just one of the applications for the technology, whose use in being tested across industries, particularly those that rely on intermediaries such as land record registry.

It was also suggested that government maintain limited regulation. “This means reiterating that crypto currencies are not recognised and those who deal in them do so at their own risk, while focusing on curbing illegal activities... Blockchain technology can be separately encouraged.”

If a decision is taken to regulate such currency, these would be treated as “digital asset, similar to gold,” which means that crypto currency owners will be able to trade them on registered exchanges.

Demonetisation won't have lasting benefits: Larry Summers

However, the government is wary that regulation will provide legitimacy to “what is currently ambiguous,” and may lead to further rise in its valuation and end up contributing “to the investment bubble”.

“But for the medium term, we see a very solid track ahead for the Indian economy,” Lagarde said to a question on India.

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