

Regulating cryptocurrencies: The low-down on the RBI's order

The Reserve Bank of India (RBI) logo. | Photo Credit: [G. Ramakrishna](#)

In the most direct action taken so far by regulatory authorities on the issue of cryptocurrencies, the Reserve Bank of India (RBI), during its monetary policy announcement on April 6, directed all regulated agencies, including banks, to stop doing any business with “any person or entity dealing with or settling virtual currencies (VC)”.

The circular says that banks have to stop all services to those dealing in VCs, including maintaining accounts, registering, trading, settling, clearing, giving loans against virtual tokens, accepting them as collateral, opening accounts of exchanges dealing with them and transfer/receipt of money in accounts relating to the purchase or sale of VCs. In addition, the RBI gave its regulated entities three months from the date of the circular to exit any such relationship they might already be in.

This decision did not come out of the blue. The RBI and the government have repeatedly issued warnings to people dealing in cryptocurrencies, with the Finance Ministry even referring to them as “Ponzi schemes” in which investors stand to lose all their money. The fear among regulators and policymakers is that cryptocurrencies, being an alternative source of value to fiat currency, could be misused to launder black money or finance terrorist activities. It has also been reported that the RBI has constituted a committee to look into the merits and demerits of issuing a central bank digital currency, which will have the status of a fiat currency. So, ring-fencing non-state cryptocurrencies could be the first step towards the issuing of a single, fiat virtual currency by the RBI.

Several cryptocurrency exchanges have said that though harsh, the RBI's stance does not explicitly say that it is illegal to buy and sell cryptocurrencies, or that running a cryptocurrency exchange in India is illegal. Instead, this move only segregates cryptocurrencies from fiat currency. Most exchanges are going ahead with their cryptocurrency to cryptocurrency transactions. Some have filed writ petitions challenging the RBI's order on the grounds that it violates their rights under Article 19(1)(g) of the Constitution.

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