

# REGULATION, NOT BAN: ON CRYPTOCURRENCIES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Eight years after the RBI issued its first advisory cautioning holders of virtual currencies about the potential financial and security risks, and two years after drafting a Bill to ban cryptocurrencies, the Government is set to introduce legislation that would, if passed, [officially proscribe such currencies](#). Its concerns appear to be the risks associated with cryptocurrencies, including their potential use for money-laundering and financing of illegal activities. The risks investors and consumers face in dealing with these so-called currencies, given that they are neither 'a store of value nor are they a medium of exchange', and the ostensible threat they pose to financial stability, are also key factors. Prime Minister Narendra Modi had in a video address to the Sydney Dialogue earlier this month said: "It is important that all democratic nations work together on this [cryptocurrency] and ensure it does not end up in wrong hands." The Centre and the RBI's deep disquiet with cryptocurrencies notwithstanding, there has been an exponential jump in investment in virtual currencies, especially after the Supreme Court last year struck down an RBI notification barring financial entities from facilitating customer transactions related to virtual currencies. Industry estimates now peg cryptocurrency holdings in India at about 40,000 crore, held by about 15 million investors, and advertising trends show an upsurge in ads promoting brands associated with investment in virtual currencies.

That the ground has shifted since an Inter-Ministerial Committee set up to study the issues related to virtual currencies first proposed the ban in 2019 is beyond doubt. From the emphatic assertion in that panel's report that "no country across the world treats virtual currencies as legal tender" to a situation where earlier this year El Salvador — admittedly a small and heavily indebted nation — officially declared 'bitcoin' as legal tender, much has changed in the adoption of private virtual currencies worldwide. The pandemic has accentuated the global embrace of all things digital and investment in the technologies enabling cryptocurrencies including blockchain, appear to be no different. Canada, Japan and Thailand permit the use of virtual currencies as a payment method, with some jurisdictions regulating them as a digital asset, and others as a commodity. Canada and the U.S. closely monitor virtual currency activity to ensure they do not run afoul of laws on financial crimes, with the former also earning tax revenue on transactions. All things given, India should eschew the temptation to join China in proscribing virtual currencies and instead aim to tightly regulate their trading through monitored exchanges and earn revenue. Simultaneously, it should expedite the RBI's pilot of the Central Bank Digital Currency so as to offer an alternative to cryptocurrencies.

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