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CRYPTOCURRENCY
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CRYPTOCURRENCY

- A cryptocurrency is a virtual currency used for financial transactions. It uses blockchain technology for various transactions. Cryptocurrency, sometimes called crypto-currency or crypto, is any form of currency that exists digitally or virtually and uses cryptography to secure transactions.
- Cryptocurrencies don't have a central issuing or regulating authority, instead using a decentralised system to record transactions and issue new units.
- Cryptocurrency is a digital payment system that doesn't rely on banks to verify transactions.
- Instead of being physical money carried around and exchanged in the real world, cryptocurrency payments exist purely as digital entries to an online database describing specific transactions.
- When you transfer cryptocurrency funds, the transactions are recorded in a public ledger.
- Cryptocurrency is stored in digital wallets.
- Example: Ethereum, Litecoin, Cardano, Polkadot, Bitcoin, Stellar, Dogecoin, Binance Coin.

ADVANTAGES OF CRYPTOCURRENCY

- **Fast and efficient:** Fund transfer is easier and faster with cryptocurrencies as compared to conventional transactions.
- Each cryptocurrency transaction is a unique exchange between two parties, which protects users from issues like identity theft.
- **Privacy Protection:** The use of pseudonyms conceals the identities, information and details of the parties to the transaction – perquisites for privacy enthusiasts.

- **Financial inclusion**: More people now have access to the internet than banks or other currency exchange systems. This opens the opportunity for reaching out to the unbanked populations of the world.
- Cryptocurrency allows two parties to **transact without requiring any third party like a bank and therefore no transaction cost.**
    - Intermediaries such as banks, credit card and payment gateways draw almost 3% from the total global economic output of over $100 trillion, as fees for their services. Cryptocurrency transactions helps save this.
- Make transactions at any time of the day or night, and there are no limits on purchases and withdrawals.
- **Lower Entry Barriers**: Cryptocurrencies lowers entry barriers, they are free to join, high on usability and the users do not require any disclosure or proof for income, address or identity.
- **Corruption Check:** As blocks run on a peer-to-peer network, it helps keep corruption in check by tracking the flow of funds and transactions.
- Cryptocurrencies can help save money and substantial time for the remitter and the receiver, as it is conducted entirely on the Internet, runs on a mechanism that involves very less transaction fees and is almost instantaneous.
- **Alternative to Banking Systems and Fiat Currencies:** Cryptocurrencies offer the user a reliable and secure means of exchange of money outside the direct control of national or private banking systems.
- **Open-Source Methodology and Public Participation:** A majority of the cryptocurrencies are based on open-source methodology, their software source code is publicly available for review, further development, enhancement, and scrutiny.

- **Counterfeiting:** It is created by cryptography and uses blockchain technology and hence is much harder to counterfeit than paper currency.

CONCERNS WITH CRYPTOCURRENCY

- **High Volatility:** The price of Bitcoin suddenly rose to almost $20,000 and then dropped to $6,000. Due to such incidents, it is complicated for the investors to trust cryptocurrency.
- The fear among regulators and policymakers is that cryptocurrencies, being an alternative source of value to fiat currency, could be misused for **money laundering and terror financing.**
- **Cybersecurity Concerns:** Cryptocurrencies are prone to cybersecurity breaches and hacks. Various attacks are common, even companies and governments are not fool proof to them. For example, the Swiss blockchain company, Trade.io, has reported that crypto tokens worth almost $8 million have been stolen from their cold wallet.
- Dark activities: The possibility that the new money **will nurture illicit activities and markets like drug selling, weapons** etc. through Darknet is always high using cryptocurrency anonymously. It also increases the risk of its use in various terrorist activities across the border.
- **Monetary control and economic behaviour:** It could dramatically **change global monetary policymaking**. People will exchange their national currencies for the new digital coin in order to buy and sell the many products that will be priced in it. This will further **impact the profit of banks** and will **put stress on their balance sheet.**
- **Inflation Control will be a challenge** for Governments and policymakers that will have reduced ability to control inflation. Usually, when inflation picks up, central banks take steps to control it through

various monetary rates. Cryptocurrency will be out of control of the central bank so liquidity control will be an issue.

- With an increase in mining of cryptocurrencies, there has been an **increase in energy consumption** as well. It was reported that, in November 2017, the power consumed by the entire bitcoin network was higher than that of Ireland. This will have an impact on power production, consumption, power prices, global warming, etc.

CRYPTOCURRENCY: INDIAN SCENARIO

- The **Ministry of Finance in its 2019 report,** Report of the Committee to propose specific actions to be taken in relation to Virtual Currencies, - 'All private cryptocurrencies, except any cryptocurrency which may be issued by the government, be banned in India'
- Earlier, the RBI has issued a circular prohibiting use of these virtual currencies. Recently, The Supreme Court lifted the ban imposed by the Reserve Bank of India (RBI) on virtual currency trading, including cryptocurrencies.
- The **Supreme Court of India,** in the case of **Internet & Mobile Association of India vs. RBI**, revoked RBI's ban on virtual currencies. It had observed that in the absence of any legislation, the central bank could not impose disproportionate restrictions on crypto trading. The Court held that in the absence of any legislative prohibition, the business of dealing in virtual currencies constituted a **protected right of occupation under Article 19 (1) (g)** of the Constitution. This can be seen as SC's push authorities towards regulations instead of a ban.
- Concerns expressed by **SC Garg committee (2019)**:
    - Risks to consumers (speculative nature, no sovereign guarantee, loss of access if private key is lost, cyber risk)
    - Criminal activity and money laundering
    - Anonymity provided to user/holder

    - Concerns on supply of currency outside the purview of the central bank, and Adverse impact on energy use.
- Government announced that it's planning to move a Bill regulating private cryptocurrencies in India during the upcoming winter session of the Parliament.

CRYPTOCURRENCY: GLOBAL SCENARIO

- In September 2021, China imposed a complete ban on crypto transactions.
- Countries including **Japan** and **the UK** have created space for their operation.
- **Canada**: It has been one of the early adopters of Crypto. Canada Revenue Authority (CRA) generally treats cryptocurrency like a commodity for purposes of the country's Income Tax Act.
- **Israel includes** virtual currencies in the definition of financial assets.
- **Germany** categorises virtual currencies as financial instruments.
- **United States:** While the federal government does not recognize cryptocurrencies as legal tender, definitions issued by the states recognize the decentralised nature of virtual currencies.
- Although most of these countries do not recognize cryptocurrencies as legal tender, they do recognize the value these digital units represent – as a medium of exchange, unit of account, or a store of value.

CRYPTOCURRENCY: WAY FORWARD

- Cryptos need intelligent regulation. Bans do not work and hurt the exuberant innovation that can throw up valuable products and services.
- Let stablecoins proliferate so that intense market competition let no single token achieve dominance.

- A digital rupee issued by RBI could be positioned as the real thing for online use. Official backing would give it a unique advantage. If it's well crafted, it could exploit the market's need for a common standard to attain domestic pre-eminence. This would help RBI keep in control over monetary policy
- Digitisation is the future and it offers many advantages in lower transaction costs, including ease of cross-border transactions. Hence, Central Bank Digital Currencies (CBDCs) need to offer these facilities, to prevent a shift of users towards payment services of large global players such as Facebook.
- Another possible approach for India is to ban crypto as a medium of exchange, while regulating it as an asset. Tech-based regulation can build on the India stack that makes KYC relatively easy. It can provide investor protection, while taxing capital gains as well as transactions. Macro-prudential regulation could reduce volatility.
- *E*xchanges must meet standards of governance, transparency and audit. Advertising must be responsible, highlighting the risks, providing investor education and raising awareness.
- Cross-border transactions can be tracked and capped in line with the capital control regime in place.