



Policy Watch - Move To Ban Cryptocurrency

The **draft Banning of Cryptocurrencies and Regulation of Official Digital Currencies Bill** 2019 has proposed a 10-year prison sentence for persons who mine, generate, hold, sell, transfer, dispose, issue or deal in cryptocurrencies. Besides, making it completely illegal, the bill makes holding of cryptos a non-bailable offence.

Cryptocurrency and Blockchain Technology

- [Blockchain technology](#) and [cryptocurrency](#) are not one and the same.
- **A cryptocurrency** is a digital currency that uses cryptography for security and is generally based on blockchain technology.
- **A blockchain** records data across a peer-to-peer network. Every participant can see the data and verify or reject it using consensus algorithms. Approved data is entered into the ledger as a collection of “blocks” and stored in a chronological “chain” that cannot be altered.
 - Once the data is recorded in a block it cannot be altered without having to change every block that came after it, making it impossible to do so without it being seen by the other participants on the network. **This feature also helps in making traceability of the data on the technology an easy process.**
- The use of blockchain technology is not restricted only to the exchange of digital currencies. It has become an extremely important and relevant technology which is now being used not just in the private sector but also in the government departments.
 - **The government of Andhra Pradesh and Telangana have put the land records on the blockchain technology** owing to its easy traceability feature.
- As more and more people would get to know about the blockchain technology, the technology will have all the core values that today, the internet has i.e. **permissionless innovation, interoperability and universality.**

Arguments in Favour of the Bill

- **Sovereignty:** Issuance of currency is a sovereign right. Unless, there is a conscious decision by a state to forgo this right, any currency issued by anybody else is considered as counterfeit currency. For counterfeit currency, there is already a legal provision in India of that of sentencing guilty persons for 10 years jail.
 - Also, current holders of bitcoin (a type of cryptocurrency), are considered to have diluted sovereignty of the country by investing their money into that currency.
- **Not a legal Tender:** Cryptocurrencies such as bitcoins are not yet the legal tender of exchange in the country. Legal tender is the national currency, such as paper money and coins, that is declared by law to be valid payment for debts and financial obligations.
- **No Regulator:** Investment in cryptocurrencies is risky as there is no one to regulate the transactions that happen through cryptocurrencies.
- **Used for Wrongful Purposes:** It has been reported that a lot of transactions related to human trafficking, drugs, cartels, terror funding is being done in cryptocurrencies.
- India **does not have the required infrastructure** for supporting cryptocurrency exchanges.

Also, people in India yet not have enough expertise to deal with digital currencies.

- Countries like China have already banned the use of cryptocurrencies completely.
- **Money Laundering:** When there is a transfer of money from one legal jurisdiction to another one, that too, without having the regulatory mechanism, then such transfer falls into a grey area of money laundering.
- **Full Capital Account Convertibility:** As per some experts, cryptocurrencies may require India to go for full capital account convertibility.
 - Presently, India is a country of **partial convertibility** on the capital account.
 - **The capital account of the balance of payments** comprises a summary of cross border transactions in assets. Assets in the context of international transactions mean investment assets: equity, debt, immovable property or any combination or hybrid of these.
 - Thus, **full capital account convertibility** would mean that there is no restriction on the conversion of the domestic currency into a foreign currency to enable a resident to acquire any foreign asset. It also enables a non-resident to acquire a domestic asset on the conversion of foreign currency to the domestic currency.

Arguments Against the Bill

- **The Inevitable Transition:** In earlier times, there used to be a barter exchange system that was prevalent in the society, then the countries shifted to paper notes and currency, now it is the time to shift to digital currencies.
- **Impact on present Bitcoins holders:** Presently, there are around three million bitcoins in India. It has been argued that present holders of bitcoins have purchased the cryptocurrency by using legal tender money only. If the Bill becomes an Act, anybody who is holding bitcoins would not be able to sell or transact it. Therefore, at least, a cooling off period is required for holders of bitcoins to convert their digital currency into legal tender money.
- **Alt Coins:** Apart from bitcoins, there are another 3,000 alt coins (other cryptocurrencies) that are available in the country.
- **Russia, U.S. and many European countries** accept cryptocurrencies as a medium of exchange. Such countries also have in place a regulatory system for the same.
- There is a concern that the decision to ban cryptocurrencies would provide leeway to people to use cryptocurrencies for wrongful purposes. Until a proper regulatory mechanism for cryptocurrencies is there in the country, the [RBI](#) can collaborate with virtual money exchanges to ensure the proper use of cryptocurrencies.
- **Not in consensus with India's stance in the recently concluded G-20 Finance Ministers' Meeting:** India at the meeting had shown consensus with the rest of the countries to regulate crypto-assets.

India needs to have proper regulations vis-a-vis- cryptocurrencies which are suited to its needs, and supporting the blockchain technology applications.