

## Inter-ministerial body proposes ban on private cryptocurrencies

### News

An Inter-Ministerial Committee set up by the government has proposed a draft bill ‘Banning of Cryptocurrency & Regulation of Official Digital Currency Bill, 2019’.

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- The inter-ministerial panel, comprising Secretary of MeitY, Chairman of Sebi and Deputy Governor of RBI as members,
- The committee has **proposed a complete ban on private cryptocurrencies** due to various adverse effects.
  - ✓ The private cryptocurrencies are inconsistent with the essential functions of money/currency, hence private cryptocurrencies cannot replace fiat currencies
- However, given the utility of the **blockchain or the DLT, the committee recommended** “that it would be advisable to have an open mind regarding the introduction of an official digital currency in India.”
  - ✓ The DLT-based systems can be used by banks and other financial firms for processes such as loan-issuance tracking, collateral management, fraud detection and claims management in insurance and reconciliation systems in the securities market,” the report said.
  - ✓ It highlighted that Europe’s largest shipping port, Rotterdam, has launched a research lab to explore blockchain’s applications in logistics, and utilities in North America and Europe are using this technology for trading energy futures. Business forecasts project blockchain’s business value addition to grow to \$176 billion by 2025.
- The panel noted that enabling provisions are available in the Reserve Bank of India Act that permit the central government to approve a “Central Bank Digital Currency” recommended by the RBI to be a “bank note” and therefore, a legal tender in India.”
- The major point of difference between fiat currency and virtual currency is that while the former is expressly guaranteed by the central government, the latter has no such backing.
  - ✓ In order for any virtual currency to be declared legal tender, it will have to be expressly guaranteed by the Central government.
  - ✓ In that case, parties are legally bound to accept it as a mode of payment, the committee noted.
  - ✓ Non-official virtual currencies can be used to defraud consumers, and sharp fluctuation in their value can cause significant losses to investors.
  - ✓ In December 2017, Bitcoin was valued at around \$20,000 per coin. However, by November 2018, Bitcoin was trading at a price of \$3800.
  - ✓ These can also affect the central bank’s ability regulate the money supply, restricting their ability to stabilise the economy.
- While no accurate information of trading volumes in India is available, in February 2018, there were around 50 lakh traders in India in 24 exchanges and cryptocurrency trading

volumes were in the range of 1,500 Bit coins a day, or around Rs 100 crore, whereas the global 24-hour trading volume is in excess of \$21 billion, the report noted.

- ✓ Other than Bitcoin, various other cryptocurrencies have emerged including Ethereum, Ripple and Cardano.
- ✓ As of date, there are around 2,116 cryptocurrencies, with a market capitalisation of \$119.46 billion.
- While China has imposed a complete ban on virtual currencies, countries including Japan, Switzerland and Thailand have recognised these as a means of payment.
  - ✓ But no country has allowed it as a legal tender or fiat currency.
- The Financial Action Task Force has also noted that on account of the anonymity associated with virtual currencies/cryptocurrencies, they are vulnerable to money laundering and use in terrorist financing activities.

Jatin Verma's IAS Academy