Bitcoins Regulation

Why in news?

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There is a sharp increase in the use of bitcoins in the recent months.

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What are the recent developments?

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- The market capitalisation of bitcoins currently stands at $67 billion and daily traded volumes has crossed $2 billion recently.
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- The boom is driven by over threefold increase in bitcoin value in the past four months.
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- This has attracted a large crowd of investors and speculators into the bitcoin market.
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- The increasing share and presence of bitcoins call for the government to legalising its use.
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What is the status of bitcoins in India?

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- Bitcoins are classified only as movable property and more specifically as computer software.
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- The government has neither formally brought bitcoins under the defintions of currency or prepaid payment instruments nor has it made bitcoins illegal.
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- It is thus right to say that currently the crypto-currency is neither illegal nor legal in India.
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- The RBI has so far adopted a conservative approach in dealing with virtual currencies but has cautioned investors about the risks.
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- However, earlier in the year the Indian government has constituted an inter-disciplinary committee to study the regulatory frameworks for cryptocurrencies.
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Is regulation a feasible option?

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- The inter-disciplinary committee has ruled out legalising these virtual currencies that are designed to remain beyond the purview of regulators.
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- Since the value of these currencies is not linked to any underlying asset, price volatility makes them inappropriate as stores of value or mediums of exchange.
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- Also, they are created through a process called mining by those solving complex algorithmic equations.
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- Every bitcoin transaction is recorded and verified in open ledgers called block-chains and are stored in digital wallets.
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- Thus to control their issue, storage or exchange is not a feasible option.
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What is the way forward?

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- Despite the limitations, the burgeoning user base of bitcoins necessitates regulation.
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- It can be brought under the SEBI's purview which can frame rules for registering exchanges, KYC procedures for those trading on the exchanges and means to record the bitcoins that enter into the system.
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- Other activities involving bitcoins such as money transfer, usage for online retail transactions, etc, could be monitored by the RBI.
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- Assistance from the Financial Intelligence Unit that will watch out for money-laundering activity using these currencies can be availed.
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Source: BusinessLine

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