Draft Bill on Banning Cryptocurrency & Regulation of Official Digital Currency

Why in news?

The Subhash Garg-led inter-ministerial panel has proposed a draft bill, "Banning of Cryptocurrency & Regulation of Official Digital Currency Bill, 2019".

What is the report for?

- The high-level inter-ministerial committee was constituted in November 2017 under the chairmanship of Subash Garg, secretary, department of economic affairs.
- **Cryptocurrencies Globally** - There are around 2,116 cryptocurrencies globally with a market capitalisation of $119.46 billion.
- Other than bitcoin, other popular ones include ethereum, ripple and cardano.
- There is wide divergence in the treatment of virtual currency globally.
- E.g. Japan has recognised bitcoin as a means of payment, China has imposed a complete ban
- However, no country treats virtual currencies as legal tender.
- **India** - The issuance of currency is a sovereign function.
- Given this, private entities issuing currency instruments undermines and destroys the macroeconomic and financial stability of the country.
- There are also concerns about money laundering and terror financing.
- Besides these, all cryptocurrencies have the potential of being a Ponzi scheme (investment fraud).
- It is also used illegally in online marketplaces that deal with drugs and child pornography.
- Given these, the policy focus should be on utilising only the positive aspects of blockchain technology.
- The panel report primarily aims at materializing these objectives.

What are the key recommendations?

- **Ban** - The committee recommends that all private cryptocurrencies be banned in India.
- It recommended a complete ban on cryptocurrencies issued by foreign private enterprises.
- This would cover exchanges, investors, traders and other financial

intermediaries.

- People will not be allowed to "mine, generate, hold, sell, deal in, issue, transfer, dispose of or use cryptocurrency in India."
- **Official digital currency** - The committee wants the RBI and the government to look at the introduction of an official digital currency.
- It highlighted that enabling provisions exist in the RBI Act in this regard.
- They permit the central government to approve a Central Bank Digital Currency (CBDC) recommended by the RBI to be a "bank note" and therefore, legal tender in India.
- The panel recommended the establishment of a specific group by the department of economic affairs for developing an appropriate model of digitalcurrency in India.
- It suggested the participation of RBI, department of financial services and the MeitY in this group.
- When a decision is taken on the CBDC, RBI should be the appropriate regulator.
- **Offence** - It was proposed that dealing in cryptocurrencies should be made a criminal offence.
- Any direct or indirect use of cryptocurrency shall be punishable with a fine or imprisonment.
- Imprisonment shall not be less than one year but may extend up to 10 years, and fine, up to Rs 25 crore.
- A repeat offence shall be punishable with imprisonment of up to 5 years that could extend to 10 years with a fine.
- **DLT in selected areas** - The panel backed the use of distributed ledger technology (DLT) or blockchain for selected areas.
- It has asked the department of economic affairs to take the necessary measures to facilitate the use of DLT in the financial field after identifying its uses.
- The RBI, SEBI, PFRDA, and Insolvency and Bankruptcy Board of India, as regulators, would explore the appropriate regulations in their respective areas.
- It also called for MeitY and the Goods and Services Tax Network (GSTN) to play a supportive role for exploring and building the uses of blockchain.
- These may include enabling trade financing, payments, data identity management or KYC requirements.
- Insurance, collateral and ownership (including land) registries, e-stamping, trade financing, post trade reporting are key areas where DLT can be used effectively.
- The committee also said that data localisation requirements proposed in the draft Data Protection Bill might have to be applied carefully.

- This is particularly with respect to the storage of critical personal data.
- This is to ensure that there is no adverse impact on Indian firms and Indian consumers who may stand to benefit from DLT-based services.

What are the likely implications of the ban?

- There are issues with cryptocurrencies, but a ban might not be the best answer.
- The recommendations, if accepted by the government, will be a blow to digital currency aspirants in India such as Facebook.
- Also, exchanges currently operating in the country by circumventing RBI norms by undertaking peer-to-peer trading will be affected.

Source: Economic Times, The Hindu

