Future Trading of Crypto-Currencies

Why in news?

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Two futures exchanges in the US gave the green light to list bitcoin futures.

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What is the fallout?

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- It is a significant step in allowing mainstream investors to buy and sell the crypto-currency.
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- As a result, Crypto-Currency rocketed around $11,000, while it was trading just below $1,000 in January.
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- The rupee volume of bitcoin trades runs at around Rs 125 crore per day and 1.5 million Indians are active bitcoin traders.
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- Other cryptocurrencies like Ethereum too have shown equally impressive gains
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- But it is to be understood that, this is clearly a bubble.
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- As more money is chasing this limited supply, prices have risen.
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- Such bubbles arise when the market finds it hard to accurately value a new concept.
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What is the rationale of traders who buy it?

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- They expect that bitcoin will be recognised as a currency by more nations.
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- Currently, only Japan among the G-7 accepts it as a legitimate currency.
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- They also expect that more merchants, including e-commerce giants like Amazon and Alibaba, will accept bitcoin.
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What are the negatives?

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- Virtual currencies create multiple regulatory concerns.
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- Bitcoin is convenient for hawala transactions.
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- It can be bought using rupees and sold in euros, dollars, or yen, thus facilitating capital flight.
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- Virtual currency-denominated Initial Public Offerings have been launched by many dubious start-ups, which seek to bypass market regulators.
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Can it be banned?

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- Bans are impossible to enforce.
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- Anybody can just memorise private keys, retain no physical evidence of ownership, and make bitcoin transactions from any internet connection.
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- Most central banks and tax authorities have not even agreed on basic definitions of virtual currencies.
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- So they should emulate the Japanese and treat bitcoin as a currency, laying down rules for usage and clarifying tax treatment.
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Source: The Hindu, Business Standard.

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