India’s Wise Move on Cryptocurrencies

Why in news?

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India’s vigil on cryptocurrencies protected investors from steep losses of Bitcoin market.

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What is the status of bitcoin market?

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- Bitcoin is the most popular crypto currency, there was an upward spiral in the price of bitcoin last year, with value racing from $985 in January 2017 to $18,847 by December.
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- This attracted investors by the drove, who viewed this as yet another avenue to make quick profits.
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- Recently the crypto currency has faced slide in its market cap, as bitcoin prices are solely dependent on demand and supply.
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- Due to the absence of an underlying asset, the prices of bitcoins are now down almost 80 per cent from their December peak.
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What is the action of Indian government on crypto currency?

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- Indian regulators and the Centre had been maintaining a vigil on crypto-currencies and had been cautioning users from time to time.
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- In 2013 and again in 2017, RBI issued a statement warning against using crypto-currencies.
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- Union government took the first step in dousing the buoyancy in these assets by stating in the Budget of 2018 that bitcoin is not a legal tender in India.
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- Thus ruling out the possibility of these currencies becoming alternative mediums of exchange.
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What is SEBI’s stand on crypto currencies?

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- The Securities and Exchange Board of India seems to have desisted from passing any stricture against crypto-currencies as it viewed these as falling under the purview of RBI.
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- This silence emboldened those trading in bitcoins and other crypto-currencies in various unregulated exchanges across the country.
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- It was presumed that there was no harm in investing in these assets that promised inordinate returns.
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- Therefore exchanges facilitating trading in crypto-currencies thrived up to the first quarter of 2018 and unfortunately, most of the naïve first-time investors would have bought these assets towards the end of 2017 or early part of this year, at peak valuations.
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- The RBI’s move this April, to prohibit all entities regulated by it from servicing individuals or businesses that dealt in or settled in crypto-currencies, brought trading in crypto-currencies to an end.
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What further measures are needed?

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- The crash in crypto-currency prices in recent weeks makes it clear that they are highly unsuitable as an asset class for retail investors.
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- SEBI needs to spell out its stance on these crypto assets in order to

prevent a recurrence of such episodes.
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- The RBI move to constitute a committee to explore the feasibility of rupee-backed digital currency therefore appears to be a good idea.
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- Higher adoption of the block chain technology also needs to be encouraged.
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- Thus currencies can be effective as a medium of exchange only if they are well regulated.
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Source: Business Line

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