

Legality of Cryptocurrency and Bitcoins

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What exactly is CRYPTOCURRENCY?

With cryptocurrency, you don't need a third party, such as a bank, to authenticate a transaction because cryptocurrency is based on peer-to-peer system which allows any person to make & receive payments from any place at any time. Cryptocurrency transactions are paid as electronic evidence of bank statements that exist in an electronic website rather than as real cash that's physically transferred from one person to another. A public ledger records all of the transactions you conduct with cryptocurrency funds. Cryptocurrency is kept in digital wallet.

The term cryptocurrency originates from the concept of encryption which is basically used to validate transactions. Complex coding is needed for storing and sending the cryptocurrency data between the wallets and public ledgers. Encryption's motive in totality is basically to make sure there's stability, security and safety.

Bitcoin as a Virtual Currency

The decentralized nature of Bitcoin makes it one of the first cryptocurrencies to emerge. Cryptocurrency is digital money. If you have genuine money, you're thought to be much safer. Cryptography is used to keep cryptocurrency transactions secure. In other words, cryptography is a means of transforming understandable data into challenging codes, which are nearly impossible to decipher. Bitcoin, Ethereum, and several other cryptocurrencies are categorised as alternative currencies, virtual currencies, and digital currencies, all of which are subsets of money. Bitcoin was the first cryptocurrency, launched in 2009, which is what this sentence is about. The popularity of Bitcoins in India has slowly begun to increase due to the government's push for a cashless economy. But, in spite of this, one must be aware that, as of today, bitcoins have not been centralized, administered or governed by a specific body like the RBI, which regulates the production and distribution of physical currency in India. In fact, the blockchain technology, which serves as a public ledger for all transactions, is utilized when peer-to-peer bitcoin transactions are made.

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Can people in India use Bitcoins?

The topic of whether bitcoin, as a form of currency, has been approved or regulated by any official entity in India has already been addressed. More importantly, no clear rules, regulations, or standards have been set out to handle bitcoin-related conflicts. This means that transactions using bitcoin come with their own hazards. However, as of now, there has been no prohibition on bitcoins in India, therefore this cannot be taken as evidence that bitcoins are unlawful. The Supreme Court of India ordered the Indian government to formulate cryptocurrency regulations in a judgement dated February 25, 2019. This action was adjourned on March 29, 2019, and it is set for July 2, 2019.

Many people have started spending most of their time and money in cryptocurrencies like Bitcoin, Ripple, Dogecoin, and the like, in order to ride the wave of the current global financial phenomenon. The Reserve Bank of India has viewed cryptocurrency as a digital or virtual currency generated through a process of written computer codes that uses cryptography. This is an example of an apex financial authority (as well as the central bank) understanding the role that cryptography plays in the currency generation process. With blockchain technology and with the creation of an individualized issuance and transaction system, a person-to-person transaction system using private and public keys for authentication and encryption has evolved.

India saw a tremendous boom in cryptocurrency exchanges because of its unexplored and unregulated market with a cap on revenue potential of over a trillion dollars. At the beginning of 2013, the Reserve Bank of India ("RBI") released a press release, warning the public against dealing in virtual currencies including Bitcoin, as the crypto market saw a tremendous rise in popularity, use, and potential financial loss. A high-level Inter-Ministerial Committee was formed in November 2017 to examine numerous issues related to virtual currency, and after this committee had concluded its investigation, it recommended a complete ban on private cryptocurrencies in India.

Understanding the Legal Stance behind Cryptocurrencies

Despite the Inter-Ministerial Committee report still being due, the RBI released a circular banning all commercial and cooperative banks, small financing banks, payment banks, and NBFCs from engaging in any business that includes digital currencies like bitcoin from April 1st. In essence, this fractured the cryptocurrency business, as exchanges required banking services to transmit and receive money and to pay workers, vendors, and operating costs. On 4th March 2020, the Apex court of India—the Honorable Supreme Court of India—in a well-conceived judgment quashed the previous prohibition placed by the RBI on cryptocurrencies. Article 19(1)(g) of the Indian Constitution, which deals with the freedom to practice any profession or to carry on any employment, trade, or business, was primarily the subject of discussion by the Honorable Supreme Court of India.

Development in the Future

While earlier versions of the bill contained similar provisions, the latest proposal would ban private cryptocurrencies in India except in certain cases to promote the underlying technology and cryptocurrency trading while creating an official digital currency that would be issued by the RBI. The New Bill seeks to outlaw all private cryptocurrencies. However, it is still a grey area as to which specific types of cryptocurrencies fall under this ban.

In the most recent update to the general public, the RBI issued a warning on the probable misuse of private cryptocurrencies, stating that they may be used in numerous ways. Alternatively, if the New Bill bans private cryptocurrencies, investors will turn to unregulated marketplaces to acquire and hold them. Furthermore, the overall goal of this legislation is to facilitate trading and storing of virtual currency in a more secure technological environment. While RBI-regulated cryptocurrencies will be made available to the general public, investing and keeping such money would remain risky.

Finally, on March 31st, 2019, India amended the Schedule III of the Companies Act, 2013, to require all companies to report their cryptocurrency investments starting with the 2019-2020 financial year. That is to say, the corporations are now required to report their profit or loss on cryptocurrency/virtual currency-related transactions such as investments or trading, as well as details of their deposits or advances from any person for that purpose. Open arms were given to this particular maneuver as it will enable all Indian corporations to have cryptocurrency on their balance sheets.

Conclusion

Based on the facts and current reality around cryptocurrencies, it is clear that regulatory clarity on cryptocurrencies is lacking in India. More focus is needed on well-structured cryptocurrency legislation with respect to crypto trading exchanges, blockchain technology, investors, and those engaged in this industry.

While it is fascinating to notice that the benefits of bitcoin were highlighted in the proposed national strategy on blockchain, 2021, issued by the Ministry of Electronics and Information Technology, it should be noted that the actual strategy is still in draft and has not yet been published. There are better ways to promote development than prohibiting global virtual money, which has had a significant impact in numerous countries. Since investors and the general public need to have faith in the emerging nation, the government is obligated to regulate cryptocurrency as a means of doing so. Though it has been officially declared by the Union Finance Minister Nirmala Sitharam that there would be no total ban on cryptocurrencies, it will be important to keep a close eye on government rules pertaining to cryptocurrencies before taking the plunge.

