Cryptocurrency: An asset not a currency

"The global adoption of crypto is increasing as technology innovation in this space accelerates further. An increasing number of global businesses are beginning to offer crypto assets to their customers as these assets are seen as digital gold or as utility tokens for decentralised applications and for accessing and running smart contracts on various blockchains", says the white paper 'Framework to Regulate Crypto in India' released by IndiaTech.org.

A cryptocurrency is the native asset of a blockchain network. We often hear terms like blockchain and cryptocurrency being mentioned synonymously. But how are they different?

The basic premise of a blockchain is to ensure that data is stored in a decentralized way in such a manner or protocol that not one person can own, control or manipulate that data. A blockchain is a digital ledger of transactions. The data is stoFred in an encrypted format. These encrypted blocks of data are then chained together chronologically, hence the name 'blockchain'. While blockchains were created to be the most transparent ledger system, they were originally invented for enabling Bitcoin, a popular form of cryptocurrency.

Cryptocurrency is a digital asset or a form that is secured by cryptography. Cryptography is the process of converting legible information into an almost uncrackable code, to track purchases and transfers. Since these have a trading or an exchange potential, regulators see them as a potential threat, as it operates outside their control. They assume it can potentially overturn an economy.

Considering this disconnect and uncertainty in the minds of regulators, backed by a threat perception to their legal tender, it is best to classify cryptocurrency as a 'crypto digital asset' and not as currency.

DIGITAL ASSETS

Cryptocurrencies when recognised as digital assets solve 99% of the problems. Perceived this way, governments can provide an easy path for their regulation since they become comparable with existing regulations for other current assets.

Globally many developed economies have realised the potential of cryptocurrencies and they are gradually accepting crypto-assets including stable coins, as a medium.

The Reserve Bank of India (RBI) issued multiple cautionary as well as prohibitory circulars in 2013, 2017, 2018 and was of the firm opinion that cryptocurrencies may lead to a high potential of money laundering, cyber frauds and terror financing. Recently, however, the Finance Minister clarified that the Government does not intend to shut off crypto in its entirety and would want to have certain windows open.

In fact, the government during the Budget session had proposed to bring in the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021 to lay the foundations for a central bank digital currency (CBDC) backed by the Reserve Bank of India and other regulations.

OPPORTUNITY FOR INDIA

Crypto has massive opportunities that India is in a position to capitalize on. The Ministry of Corporate Affairs (MCA) has made it mandatory for companies to disclose crypto trading/investments during the financial year. Those operating in this sector feel it as a positive move and expect the taxation rules to follow through. This is being considered as the first step towards regulating cryptocurrencies in India.

The white paper released by IndiaTech.org and submitted to the government addresses most of the concerns with simple solutions. The recommendations cover taxation, traceability, money laundering, financial disclosures, exchange ownership parameters, KYC's, FATF guidances, accounting standards, anti-money laundering aspects, import regulations, and suspicious transactions reporting. The white paper also suggests ways in which a conducive and enabling policy environment can be created with safeguards built in.

It is important that India does not miss this bus like it did for many in the past on various emerging technologies. The effort should be to create a positive regulated environment that allows innovation and growth with checks where necessary.

The article has been authored by Rameesh Kailasam, CEO and President at IndiaTech.org. The views expressed are personal.

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