

## **17. What Should We Opt For – Private Currencies Or Central Bank- Promoted Digital Currencies?**

**By Gopal Krishna Agarwal,**

Crypto currencies have generated a lot of debate because of their storage value and being used as an asset class. It is a borderline case where it is not illegal to hold crypto currencies, but In 2019, the Government came out with a bill banning crypto currencies, but the Bill did not see the light of the day and got lapsed, leading to further uncertainty and lack of clarity on the subject. RBI also came out with a circular on April 6, 2018, forbidding banks from entertaining customers having exposure and dealing in crypto currencies....

This circular was quashed by Supreme Court in its judgment on Internet and Mobile Association of India verses RBI on March 4, 2020, citing, lack of legislation and laws on these currencies, noting that in the absence of any legislation, the RBI cannot impose disproportionate restrictions, like banning buying and selling of crypto currencies. The RBI then officially withdrew the said circular .

while cautioning banks to deal with any kind of exposure with these currencies....Finance Minister Smt. Nirmala Sitharaman when asked a question on the government stand on the status of crypto currencies, said that “I can only give you this clue that, we are not closing our minds, we are looking at ways in which experiments can happen in the digital world and crypto currencies”, she further added that, “there will be calibrated position taken”.

The decentralized database leads to more and more disintermediation, which is cost-effective. but there is a lot of anxiety that the Government is contemplating banning them. Reserve Bank of India has shown its reservation on the use of crypto currencies. The Supreme Court has not taken any position as such other than asking the Government to draft laws and make its stand clear on the regulatory side.

According to recent media reports, there are about 8 million investors in India, holding investments of \$ 1.4 billion in various crypto currencies. Several exchanges across India deal in these currencies, facilitating trading, settlement, and promoting crypto currencies. The whole ecosystem is operating in an unregulated regime, neither being illegal with markets ripe with speculations that the Government is ready to ban them at any point of time in the near future. The investors and the intermediaries operate in an uncertain environment and live in anxiety, leading to hyper speculation...

The basic purpose of currencies/money is to facilitate transactions and help in exchange for value. But currently, crypto currencies are not being used as a medium of exchange or for transactions but are seen as an asset class having storage value. This is because of the regulatory gaps at present. Recent developments show that the time has come to fill up this gap as soon as possible.

The draft bill in 2019 banning crypto currencies recommended jail term up to 10 years and huge financial penalties on people who mine, generate, hold, sell, transfer, dispose of, issue or deal in crypto currencies.

The Government's initial plan was to ban private crypto assets while promoting block chain – a secure database technology that can revolutionize international transactions and are the backbone of virtual currencies. Digital currencies across the world are making inroads into financial transactions because of their ease and secured nature. But global central banks, including RBI, vary illegal money getting into the system. with no central bank's control on financial flows due to lack of one central entity and use of decentralized distributed ledger technology (DLT).

The backbone of crypto currencies is the block chain technologies with distributed ledger technology. The use of distributed ledger technology, which is efficient, secured and is less prone to frauds.