#IndiaWantsCrypto: Should it get it?

There was a report by the Inter Ministerial Committee on Cryptocurrencies. It has been in the news for a number of reasons. At 108 pages, it is a handful. Here are they key points:

1. The report talks about DLT: Distributed Ledger Technology; of which Blockchain is a subset; which underlies Crypto currencies, Bitcoin being a prime example.
2. The report takes a negative stance only on Non-Official Virtual Cryptocurrencies.
3. The report recommends adoption of DLT to increase efficiency in service delivery to citizens and financial markets.
4. The report recommends
5. It compares the regulatory scenario across different jurisdictions.
    a. Some countries (eg China) have outrightly banned cryptocurrencies.
    b. Some countries (eg Russia) have allowed use of such currencies for barter transactions, ie in exchange for goods and services
    c. Some countries(eg Switzerland) have allowed it to be used as a means of payment. However, since there is no legal backing, people are not bound to accept it. It is from their own free will.
    d. No country has considered CryptoCurrencies as legal tender.
6. The disadvantages of virtual cryptocurrencies have been mentioned with sources and rationale. These are:
    a. Scope of collusion by miners to fork and thereby robbing the holders of value
    b. Low scalability: To be used as a means of payment, the number of transactions that can be processed has to be much higher. At its peak, it would take Bitcoin more than a day to verify a transaction.
    c. The cost of verifying transactions through the Proof of Work protocol is very high. The report says that 19 US households could be powered for a day in the electricity it takes to mine one bitcoin.
    d. If such currency mining is not prohibited in India, it would be catastrophic. Developed nations such as Canada have had to buy power in the open market. India is already power starved.
    e. Irreversibility: All transactions on blockchain are irreversible. While this gives it credibility, it penalizes mistakes. Anyone who has worked at a bank would tell you that mistakes are common even while transferring money.
    f. Security: Wallets and even exchanges have been prone to cyber-attacks thereby causing a security concern.
    g. Password: If one forgets the Private Key, there is no recourse. Currently, we have the provision of verifying the identity of the person and regenerating a PIN or an OTP. No central authority exists in case of crypto currencies.
    h. Monetary policy: cannot be enforced by central banks. This can cause unchecked inflation.
    i. Cross border control: over currency cannot be exercised as there is no central clearing house.
    j. Anonymity: in transactions is causing cryptocurrencies to be used for criminal activities; from financing narcotics as in the case of SilkRoute to terrorism.
7. It recommends creation of a government backed cryotocurrency.
    a. Enabling provision section 26 of RBI Act
    b. Benefits of cryptocurrencies add to those of a central agency
    c. Problems and possible means of mitigation are also mentioned in the report.

8. Given the disadvantages, it suggests enactment of a law to prohibit trading/mining cryptocurrencies. It entails a punishment of 10 years imprisonment. This part was leaked earlier and caused hue and cry.

The supreme court case of IAMAI vs Union of India was adjourned at the time of writing.
Twitterati says that if Crypto is banned in india, it would cause a loss of a million traders, 100M in cryptocurrency that would be blocked. There are no reliable estimates of these numbers.

Anurag Thakur mentioned in the Parliament that Cryptocurrencies are not banned in India. He was correct to the extent that there is no law prohibiting it yet. However, RBI, through a circular has prohibited anyone from buying/selling/trading cryptocurrencies. The difference between the two is mostly technical and that of punishment.