

# THE PRESENT AND THE NEAR FUTURE OF CRYPTOCURRENCY

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## ABSTRACT

Cryptocurrency represents beneficial and hypothetical objects which are used only electronically in multiple applications and networks such as online social networks, online games, virtual worlds, and peer-to-peer networks (P2P). The employment of virtual currency has become omnipresent numerous in numerous different systems in recent years. This paper attempts to make the readers comprehend the very origination of currency, its progression, and its present-day disputed form- Cryptocurrency. It then elucidates the definition and mechanism, of cryptocurrency in a concise form. The paper further analyses the virtual currency and the first cryptocurrency, Bitcoin which later dealt with the competition due to the emergence of new cryptocurrencies.

The paper then goes to explain the current status of cryptocurrency in India and reflects upon the need for a legislative framework to regulate and govern the aspects of the cryptocurrencies as the same play a highly necessary role in uplifting the economy. With regards to India, the standing of cryptocurrency is beneath the evaluation period. In different countries, cryptocurrency is treated distinctly. Lastly, the paper covers how Crypto currencies are making room globally and how the future of trading virtual currency appears to be in India.

The newly risen Bitcoin-tide has brought along with it a host of complications, not only for financial wizards but for our parliamentarians as well. I hope to touch upon the implications of Cryptocurrency phenomenon in India, its market scope, legality and the spectrum in which it operates and more importantly what it could bring along with it in the future. Besides its classification legally, the institutions that are equipped to deal in case of any disputes that arises are also dealt. This paper is an attempt to answer the crucial question, that is, can the Block chain technology be of utility for Indian people and if yes, how can the law shepherd the technological innovation in reaching the public with security and stability.

## INTRODUCTION

The economy has inexorably evolved during the aeons of transition. The period of mercantilism, which saw trade through the exchange of gold and silver, was transformed into a barter system.

Crypto currency is used as money to perform totally decentralised online payments over a well-defined network (not just the internet). Crypto Currency is a form of digital currency that is protected by cryptography, making it difficult for anybody to counterfeit the money. It employs block chain technology, which makes hacking harder. The whole crypto currency ecosystem is being created in an open-source setting. This open-source application may be operated and maintained on a variety of PCs and mobile devices.

Virtual Currency refers to the uncontrolled part of digital currency. A cryptocurrency is a type of virtual currency. As a result, one distinguishing feature of crypto money is that it is generally not issued by any central authority, making it potentially immune to government meddling or manipulation.

Cryptocurrency <sup>1</sup> is distributed online and its distribution is recorded on a public ledger, the "Block chain" <sup>2</sup> Digitally transferred, it exists only online. It can have monetary worthwhile still being a commodity, similar to gold, but it is still its own currency. It is also decentralised, with no one body in charge (therefore no opportunity for manipulation by the central entity), but rather a community of people who execute transactions known as miners. This means it is not subject to government regulations when traded or spent, and you don't need a bank to use it (in fact no third party is required at all).

The platform created a whole new paradigm, one that is distinct from the usual regulators and rules that control fiat currency. Bitcoin is not the same as illicit, counterfeit money, which is a clear example of a "currency" that misrepresents itself as legal cash.

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<sup>1</sup> "A digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank. available at: <https://en.oxforddictionaries.com/definition/cryptocurrency>"

<sup>2</sup> Bitcoin: The name of the currency unit (the coin), the network and the software; Block chain-A list of validated blocks, each linking to its predecessor all the way to the genesis block".

Nonetheless, when it comes to legislation, it appears to operate in a grey area. “However, many of these issues stem from misconceptions or a lack of specific regulations governing Bitcoin, rather than outright breaches of the law.”<sup>3</sup>

## **TERMINOLOGIES**

- a) **Private Key** - The private key is used to encrypt as well as decode the data. This key is shared by the sender and receiver of encrypted sensitive data. The private key is also known as symmetric since it is shared by both parties. Private-key cryptography is faster than public-key encryption.
- b) **Public Key** - Encryption is accomplished through the use of a public key, while decryption is accomplished through the use of a private key. The sender and recipient of the encrypted sensitive data share the private key. Asymmetric cryptography is often known as the public key.
- c) **Cryptography** - In layman's words, it is a method of safely transmitting a message via an insecure channel, i.e. when the communication channel is controlled by a third party. The message is coded using elliptic curves, their characteristics, and a mathematical technique in such a way that it can only be decoded by the recipient using the private key. The sender is also identified and cannot dispute its obligation.
- d) **Block Chain** - Block chain may be thought of as a decentralised and distributed open ledger in which all transactions are kept in blocks. As a result, in a complete block chain database, all transactions from the beginning are visible and available to everybody. The transaction may be seen by anybody, but it cannot be altered. This block chain approach is resistant to modify by design, and if anybody wants to hack the database there, she or he must hack over half of the nodes, which is absurd, because every entire bitcoin node has access to a comparable database and all participate in the validation process. Block chains are used to keep track of cryptocurrency transactions.
- e) **Mining** - Undeniably, when the price of Bitcoin rises, the issue that arises is: where do cryptographic forms of money come from? Miners are the people who ‘mine’ currencies. Consider gold miners. This is the simplest technique to consider. They appear to be digging or mining gold from the soil. After being mined, it enters the

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<sup>3</sup> Available at: <https://bitcoinmagazine.com/guides/bitcoin-legal/>

economy. The underlying principle of cryptocurrency is the same. Mining is the process of producing new types of money, but it is also an important component in the maintenance and growth of the block chain ledger. It is done out using highly powerful computers that deal with exceedingly complex computational math problems. Miners are compensated since mining is time-consuming, expensive, and only sometimes lucrative.

## **LEGAL STANDING IN INDIA**

The cryptocurrency is a decentralized, virtually anonymous, substantially unregulated digital currency that has become popular in recent years. The cryptocurrency is pushed by non-government individuals or entities via the use of a peer-to-peer private network that operates on the basis of decentralised autonomy. Considering the fact that bitcoin transactions are anonymous, they are well-suited for a variety of heinous acts such as unlawful transactions to conceal the identities of the transactors, illicit transactions, money laundering, and tax avoidance. Governments are growingly concerned and focusing on such transactions. Cryptocurrencies are legal in a few countries but not in many. It is unclear when the government will seize possession of any ostensibly lawful shield.

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It is worth noting that in India, purchasing, trading, or exchanging bitcoin has never been prohibited. Nobody knows when, but the government of India is anticipated to prohibit all “private” cryptographic forms of money while also unveiling a sovereign digital currency sometime “soon.”<sup>4</sup> This despite many industry pleas and the Reserve Bank of India's (RBI) unsuccessful attempt in 2018 to sneak in a ban by banning banks from contacting crypto. Last March, the Supreme Court ruled that the prohibition was unconstitutional.<sup>5</sup>

The legality of Bitcoin is predicated on the benefit it provides in society and how the digital money is used by the transacting parties. In the context of India, it is unarguable that the Central Government has the authority to legislate, appoint a committee to regulate, or appoint an institution to monitor cryptocurrency transactions.

“Article 246 read with the Seventh Schedule of the Constitution enumerates the activities over which the Central Government and State Governments have legislative authority.”

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<sup>4</sup> <https://economictimes.indiatimes.com/markets/stocks/news/sc-allows-trade-in-cryptocurrency-quashes-rbicurb-on-use/articleshow/74470078.cms>

<sup>5</sup> *Ibid*

“Entry 36 and 46 of List I of the Seventh Schedule of the Constitution provide that the Central Government may legislate in respect of money, coinage, legal tender, foreign exchange and bills of exchange, checks, promissory notes, and other similar instruments, respectively.”<sup>6</sup>

The nature of cryptocurrency transactions in their current form is comparable to trading over shares of a firm, it may be twice or treble the purchase price within a week or less than half of its worth. However, there is no formal legislation in place that treats bitcoin transaction income as taxable income under the Income Tax Act. The Income Tax Department has issued tax notifications to cryptocurrency dealers despite the lack of a legal definition and authorisation for such transactions.<sup>7</sup>

### **CURRENT TYPES IN THE MARKET**

The quantity of cryptocurrencies accessible over the internet is over 1600 and growing. A new cryptocurrency can be originated at any time. By market capitalization, Bitcoin is presently the biggest block chain network, followed by Ripple, Ethereum and Litecoin

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**1. BITCOIN (BTC):** Bitcoin, one of the most well-known virtual currencies, is often regarded as the first crypto money. It was created as open-source software in 2009. Bitcoin uses block chain technology to enable customers to conduct transparent peer-to-peer transactions. These transactions are visible to all clients and are safeguarded by the algorithm within the block chain. While everyone may see the transaction, only the owner of that Bitcoin can decrypt it using a "private key" that is issued to each owner. In contrast to a bank, Bitcoin has no central authority figure. Bitcoin users manage the sending and receiving of money, allowing anonymous transactions to take place all over the world.<sup>8</sup>

**2. LITECOIN (LTC):** Litecoin was created in October 2011 as a Bitcoin alternative. Litecoin, like any other crypto currency, is a peer-to-peer virtual money and open source software project distributed under the MIT/X11 licences. According to market capitalization, Litecoin is the ninth-largest cryptocurrency. Its generation and transmission are based on an open-source cryptography protocol and it is absolutely decentralized. Litecoin differs from Bitcoin in some ways. The following are some distinctions between these digital currencies: Litecoin's network plans to process a block every 2.5 minutes,

<sup>6</sup>“Indian Legal and Tax Considerations, "Bitcoins: A Global Perspective", (April 2015).

<sup>7</sup> Available at: <https://www.ndtv.com/business/tax-department-sends-notices-to-bitcoin-investors-as-trading-hits->

<sup>8</sup> <https://www.ig.com/en/cryptocurrency-trading/cryptocurrency-comparison>

whereas Bitcoin takes 10 minutes.<sup>9</sup> This permits Litecoin to have faster transaction affirmation. The coin limit for Litecoin is 84 million and Bitcoin is 21 million.<sup>10</sup> On April 17, 2021, one Litecoin was worth \$310.73. According to experts, Litecoin is more difficult to generate and more expensive to make since it employs a different algorithm known as script as well as FPGA (Field Programmable Gate Array) and ASIC (Application Specific Integrated Circuit) equipment designed for mining.

**3. ETHEREUM (ETH):** Vitalik Buterin, a cryptocurrency researcher and programmer, introduced Ethereum as a form of cryptocurrency in late 2013. It was initially released in July 2015. It is an open-source, decentralised software platform based on block chain technology that was created to support its cryptocurrency, ether. While tracking the ownership of digital currency transactions, the Ethereum block chain also manages the programming code of any decentralised application, allowing application developers to use it to pay transaction fees on the Ethereum network.

**4. RIPPLE (XRP):** Ripple is a gross settlement structure, currency trading, and settlement network developed by Ripple Labs Incorporation, a company located in the United States. Ripple, which was launched in 2012, functions as both a cryptocurrency and a digital payment network for financial transactions. It is a global settlement network designed to provide a quick, safe, and cost-effective means of moving money. In contrast to other currencies, Ripple allows any type of currency to be traded, from USD and Bitcoin to EUR and gold, and associates with banks. Furthermore, Ripple differs from other types of digital currencies in that its major focus is not on person-to-person transactions, but rather on large quantities of money flowing on a large scale.

**5. BITCOIN CASH:** Bitcoin Cash is a type of digital money developed to improve some aspects of Bitcoin. It is the result of the bitcoin hard fork that occurred in August 2017. Bitcoin Cash was created in order to expand the size of blocks, allowing more transactions to fit into a single block.

**6. ETHEREUM CLASSIC:** The Ethereum Classic block chain is a subset of the Ethereum block chain. It enables the execution of smart contracts on a comparable decentralised network. Smart contracts are programmes that function precisely as intended with no possibility of downtime, censorship, extortion, or third-party interaction. Similarly,

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<sup>9</sup> <https://en.wikipedia.org/wiki/Litecoin>

<sup>10</sup> <https://www.ig.com/en/cryptocurrency-trading/cryptocurrency-comparison>

to Ethereum, it provides a value token called "traditional ether," which is used to make payments to customers for products or services.

## **RESERVE BANK OF INDIA (RBI): THE REGULATING BODY**

### **A. The Press Releases of Reserve Bank of India:**

The Reserve Bank of India issued a press release on December 24, 2013, as their first indication of dissatisfaction with crypto currency, in which they warned holders, traders, and users of virtual currencies such as Bitcoins, Lite coins, BBQ coins, doge coins, and others about operational, legal, potential financial, and security risks. and protection of customer that they are exposing themselves to.<sup>11</sup>

**B.** Rama Subramaniam Gandhi was the Deputy Governor of RBI from 2014 to 2017 and on 26th August 2015<sup>12</sup>, he expressed his concerns regarding crypto currencies that they have capability to reinforce criminal activities like money laundering, evasion of tax and funding of terrorism.

**C.** On 1st February 2017<sup>13</sup> and 5th December 2017<sup>14</sup>, RBI releases another advisory to caution the users, traders and holders of virtual currencies (VCs). In the advisory, RBI states that there are no licenses or authorizations given to any entity or company to deal with any Virtual Currency.

**D.** The Digital Asset and Block Chain Foundation of India (DAFI) were jointly formed by some crypto currency start-ups on 27th February 2017, which laid down self-regulatory regimes.<sup>15</sup>

<sup>11</sup> [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=39435#:~:text=Press%20Releases,-\(152%20kb\)&text=The%20Reserve%20Bank%20of%20India,release%20dated%20December%2024%2C%20](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39435#:~:text=Press%20Releases,-(152%20kb)&text=The%20Reserve%20Bank%20of%20India,release%20dated%20December%2024%2C%20)

<sup>12</sup> <https://www.medianama.com/2015/08/223-rbi-crypto-currency-bitcoin/>

<sup>13</sup> [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=39435](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=39435)

<sup>14</sup> [https://rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=42462](https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=42462)

<sup>15</sup> <https://timesofindia.indiatimes.com/business/india-business/cryptocurrency-startups-launch-digital-asset-and-blockchain-foundation-ofindia/articleshow/57373235.cms#:~:text=CHENNAI%3A%20Cryptocurrency%20startups%20Zebpay%2C%20Unocoin,growth%20of%20virtual%20currency%20market.>

### E. The bills of Inter-Ministerial Committee

The centre made a committee on 02<sup>nd</sup> November, 2017 which proposed bills but none of them were implemented. The committee was known as Inter- Ministerial Committee (IMC). The IMC Committee's first measure, the Crypto-token Regulation Bill of 2018, was prepared and proposed. According to the law, IMC proposed delaying the prohibition on crypto money, however this option was never implemented due to its severe nature. The measure proposed:

- i. People involved in activities involving crypto tokens should be prohibited from presenting them as investment schemes or securities or offering investment schemes owing to a lack of a regulatory framework.
- ii. The virtual currency (VCs) exchanges and brokers where the VCs will be sold or purchased after it is authorized must be regulated.

The Inter-Ministerial Committee's (IMC) suggestions in their first bill were never enforced or implemented. The IMC submitted a new law titled “the Banning of Crypto Currency and Regulation of Official Digital Currency Bill, 2019.”<sup>16</sup> According to the committee's recommendation in its second bill, the use of virtual money as legal cash should be prohibited. The measure also proposed a ban on owning, selling, trading in, issuing, mining, buying, disposing of, or using crypto money in the country. The second bill's character was strict and harsh, including provisions for offences and penalties.

### F. Imposition of Ban

A significant prohibition was enforced after the RBI issued a circular titled “Prohibition on Dealing in Virtual Currencies” on April 6, 2019.<sup>17</sup> With immediate effect, organisations regulated by the RBI shall not deal in virtual currencies (VCs) or offer services to any person or entity in dealing or settling virtual currencies (VCs), according to a circular issued by the RBI. Registration, account maintenance, lending against virtual tokens, trading, settling, clearing, accepting them as collateral, opening accounts of exchanges dealing with them, and transferring / receiving money in accounts relating to the purchase/sale of virtual currencies (VCs) are all prohibited services. Registration,

<sup>16</sup> [https://prsindia.org/files/bills\\_acts/bills\\_parliament/Draft%20Banning%20of%20Cryptocurrency%20&%20Regulation%20of%20Official%20Digital%20Currency%20Bill,%202019.pdf](https://prsindia.org/files/bills_acts/bills_parliament/Draft%20Banning%20of%20Cryptocurrency%20&%20Regulation%20of%20Official%20Digital%20Currency%20Bill,%202019.pdf)

<sup>17</sup> <https://rbidocs.rbi.org.in/rdocs/Notification/PDFs/NOTI15465B741A10B0E45E896C62A9C83AB938F.PDF>

account maintenance, lending against virtual tokens, trading, settling, clearing, accepting them as collateral, opening accounts of exchanges dealing with them, and transferring / receiving money in accounts relating to the purchase/sale of virtual currencies (VCs) are all prohibited services. Private persons or enterprises dealing with virtual currency (VCs) were effectively **barred from** continuing their activities since they required help from firms authorised by the RBI. Furthermore, it was mandated that within three months of the date of the RBI Circular, businesses regulated by the RBI and currently providing such services should discontinue their operations. The restriction dealt a severe blow to virtual currency exchanges, causing the established company to fail.

### G. The Judgment

A division bench of Supreme Court in *Internet and Mobile Association of India Vs. Reserve Bank of India*<sup>18</sup> issued a decision and removed the prohibition imposed by the RBI circular stating that it was against Article 19(1)(g) of the Indian Constitution, which provides the freedom to work in any vocation, practise any profession, or apply the idea of proportionality and trade or business, was crucial in this case.

### H. Crypto currency and Regulation of Official Digital Currency Bill, 2021

The law has not yet been enacted in the Lok Sabha, and on 29 January 2021, the second section of the Lok Sabha bulletin was released, stating that The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021 would be tabled.<sup>19</sup> The bill's goal is to create a structure that would facilitate the development of the official digital currency, which will be issued by the Reserve Bank of India (RBI). Private cryptocurrencies will cease to exist in India since the bill forbids them, although the bill will allow specific exclusions to promote the underlying technology of cryptocurrency and its purposes.

**Risk involved:** The Reserve Bank of India cautioned regarding potential financial, customer protection, operational and legality issues regarding any kind of virtual currency. Cryptocurrency transactions are encrypted and are done virtually online which involves the risk of illegal activities such as terror-funding, money laundering, smuggling, drug trafficking,

<sup>18</sup> [Internet and Mobile Association of India Vs. Reserve Bank of India AIR 2020 SC 298](#)

<sup>19</sup> <http://loksabhadocs.nic.in/bull2mk/2021/29012021.pdf>

etc. as users will have limited knowledge about the transactions or even may not entirely know about it due to the encrypted nature of transactions. It involves a high risk of easily counterfeiting cryptocurrency or Ponzi schemes to deceive customers. Some other risks involve that cryptocurrency is electronically stored so it can easily be hacked, loss of password, loss of money, etc. **Taxation:** The main concern of taxation in investing of cryptocurrency is how to categorize it and the specific activity involved in purchasing and selling cryptocurrency. This is of great concern as purchasing and selling cryptocurrency is to be categorized as income or capital gains which will determine its tax slab. Now different countries use different methods to categorize cryptocurrency for tax purposes. Due to the lack of rules and regulations governing the usage of bitcoin, cryptocurrency is not even taxed in certain countries.

### **INDIA MAY LAUNCH ITS OWN CRYPTOCURRENCY, “LAKSHMI”**

The adoption of this new cryptocurrency may need changes to the Indian Paper Currency Act of 1882 and the Indian Coinage Act of 1906. It would be good to examine how the United States' Financial Crimes Enforcement Network ("FinCEN") distinguishes between "real" and "virtual" currencies. According to the *Guidance Note*<sup>20</sup>, virtual money is a means of exchange that acts like a currency in some contexts but does not have all of the characteristics of real cash. Virtual money, in particular, does not have legal tender status in any jurisdiction. This document discusses convertible virtual money. This sort of virtual currency either has a real-world equivalent or serves as a substitute for real-world currency.<sup>21</sup>

In Indian context, it must be borne in mind the purpose for the introduction of a new coin, 'Lakshmi'. Though it has not been confirmed by the Indian Government, even if the Government launches it, how will the government justify its non-interference in such a type of Cryptocurrency is still a concern. The algorithm for such a Coin should be first debated in either the Parliament or in a Technical Parliamentary Standing Committee constituted exclusively to deal with financial regulations of such a currency.

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<sup>20</sup> FinCEN Guidance Note of March 18, 2013,

<sup>21</sup> Available at: <https://www.fincen.gov/sites/default/files/shared/FIN-2013-G001.pdf>

## **OFFICIAL DIGITAL CURRENCY BILL, 2021**

The new bill intends to outlaw private cryptocurrencies, but before doing so, it is critical to examine India's enormous growth and interest. India's projected contribution to cryptocurrencies is between 2% and 10% worldwide. The ban could cause panic among the investors of virtual currency. The new bill will allow the investors to liquidate their assets within six months hopefully but the medium of liquidation is still not disclosed. The complete disposal of virtual currency unit can be the most feasible consequence of the ban. The abuse of virtual currency for terror funding, money laundering, and worldwide fraud prevention that occurred in South Africa was one of the major goals that the RBI has frequently stressed. Since, the new bill is willing to ban the private cryptocurrency, it can embark on a black market where the genuine investors can operate as they will not have choice but to operate under unmonitored conditions. The main goal of introducing regulation in virtual currency dealings is to provide a technologically safe zone and a monitored environment but the new crypto currency that will be introduced by the RBI will also face the same risks as the private ones.

The crypto currency introduced by the RBI will have absolute monopoly as it will be the one and only of its kind in the market. Apart from this a question arises that whether the foreign investors will be allowed to invest or not and what will be the regulations. Thus, certain complications will arise in case the foreign investors are allowed to invest and on the other hand, the Indians will be deprived from investing in foreign virtual currencies. The bill is filled with ramifications and it will require clarification before implementation.

## **WORLDWIDE SUPPORT**

- **Pro countries:** For various reasons, some countries see cryptocurrency and block chains as opportunities. Countries such as Spain, Belarus, and the Cayman Islands do not use cryptocurrency as legal tender, but are attempting to pass legislation in favors of cryptocurrency in order to attract investment due to the technology's potential. Venezuela, the Marshall Islands, and the Eastern Caribbean Central Bank (ECCB) have all created their own cryptocurrency. Pro-country officials claim that online fraud, money laundering, terror funding, and other illegal activities continue to take place using existing legal tender.
- **Partly-pro countries:** Qatar has prohibited its citizens from using cryptocurrency within its borders but not outside. Bangladesh, Iran, Thailand, and China have not

prohibited their citizens from using cryptocurrency, but have prohibited financial institutions within their borders from using or issuing it. Belgium, South Africa, and the United Kingdom have issued statements explaining why they do not recommend investing in cryptocurrency, but they also claim that the market is too small to warrant a ban or declaration of illegality.

- **Opposing Countries:** Countries such as Australia and Canada have enacted legislation to bring cryptocurrency transactions under the purview of anti-money laundering and anti-terrorism legislation. Morocco, Pakistan, Nepal, and Vietnam have all outlawed cryptocurrency use.

## CONCLUSION

Banning cryptocurrencies would be counterproductive in the long run, since more and more countries recognise them. It is a novel type of monetary transaction that is currently in its early stages of development. As a result, the topic of its availability naturally emerges. The simplicity with which conventional cash may be converted into cryptocurrency and vice versa is a major factor in attracting investors and permits for an increment in its utilization.

Gradually, more and more individuals are getting mindful of crypto and want to seek a career in Block chain technology. Positive regulations will provide a significant boost to crypto adoption in India, with more start-ups developing projects on the block chain. With tech behemoths like JP Morgan and Facebook jumping on the crypto bandwagon, crypto will become mainstream in the next few years, and we will see more and more useful instances of crypto come to life.

The existing legal environment must alter itself to incorporate, recognize and regulate cryptocurrencies. It may come as a surprise to learn that firms such as Microsoft accept Bitcoin. Indeed, one of India's largest conglomerates, Reliance Jio, plans to launch its own crypto currency named JioCoin. India would possibly further have a promising cryptocurrency industry if the available resources are amalgamated effectively.

## **SUGGESTIONS**

1. **Definition and Indian Ownership Requirements:** The government should classify cryptocurrencies as digital assets, similar to gold and stocks, rather than currencies. A system for recognising India-registered or Indian-founded cryptocurrency exchanges, as well as the necessary checks and balances. From a control and monitoring standpoint, India should allow only Indian founders to operate such businesses, according to the body.
2. **Compliance, Verification and Reporting:** The association has requested that a robust KYC process be implemented for compliance and verification purposes. It also advised the government to follow FATF recommendations in order to put in place the necessary safeguards against terrorist financing and money laundering. To reduce the possibility of money laundering, it has proposed allowing only those crypto-assets, such as Bitcoin, that allow for forensic analysis and can be subject to certain defined lawful enforcement.
3. **Taxation, Disclosure and Import:** The body has requested that necessary provisions be included in Direct Tax laws to allow recognition and treatment under the head of Income 'Profit and Gains from Business and Profession' or 'Income from Capital Gains' depending on the type of business held and the timeliness of holding. GST should be levied on brokerage or exchange fees (as is done in stock exchanges) rather than the transaction value. Similarly, FEMA regulations and assigned HS codes should apply to people living outside of India who want to buy cryptos in India.
4. **Treatment of Payments and New Token Issues:** According to IndiaTech, cryptocurrency payments should be treated as a barter system. The proposal requests that exchanges conduct due diligence on tokens and their issuance.
5. **Self-Regulation:** It recommends principle-based self-regulatory guidelines for the industry to follow until necessary changes to laws and regulations are made. According to the tech association, this self-regulation model should be carried out through a government-accredited/recognized body in order to make self-regulation more accountable and transparent.