



## LEGALIZATION OF CRYPTOCURRENCY

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### Abstract

This paper highlights the growing concern on the legalization of Cryptocurrency. Initially in 2019, a panel comprising of officials from the Department of Finance, Department of Economic Affairs, Ministry of IT, and the Reserve Bank of India, came up with a bill, "Banning of Cryptocurrency and Regulation of Official Digital Currency Bill", which concerned on banning of such virtual currencies in the market which is not under the government jurisdiction and any individual contravening this act or omission shall be liable to grant fine of 25 crores and an imprisonment of that shall not extend up to 10 years, or both. Notwithstanding, the Supreme Court of India did not receive any proportionality in this recommendation as the Reserve Bank of India did not ban the use of virtual currencies in the market, legitimately. Thereby, in 2020, The Supreme Court of India, based on the minimal proportionality of the recommendation, has lifted the ban on such virtual currencies, including cryptocurrency. Yet, from the legal standpoint, the republic of India doesn't have any Act, law or regulations regarding Cryptocurrency. However, from a financial steadfast RBI regulation prohibit any bank in India to deal or transact in Cryptocurrencies. That essentially eliminates buying or selling of any business, objects or services using Cryptocurrencies in India.

Therefore, any individual dealing in Bitcoins or other Cryptocurrencies is doing it completely at his/her own risk. Bitcoin transactions are completely unmonitored and beyond government jurisdiction, making it easy to carry out shady transactions with ease. This paper also highlights whether or not Bitcoins should be legalized and accepted as a medium of exchange, considering the wide array of opportunities, ease that bitcoin brings to individuals as a medium of currency/exchange or stop its legalization considering the cost of freedom that bitcoins give rise to.

This paper intends to throw some light on this ongoing debate from a neutral point of view and focuses on the benefits and impacts that bitcoin will have if it is legalized.

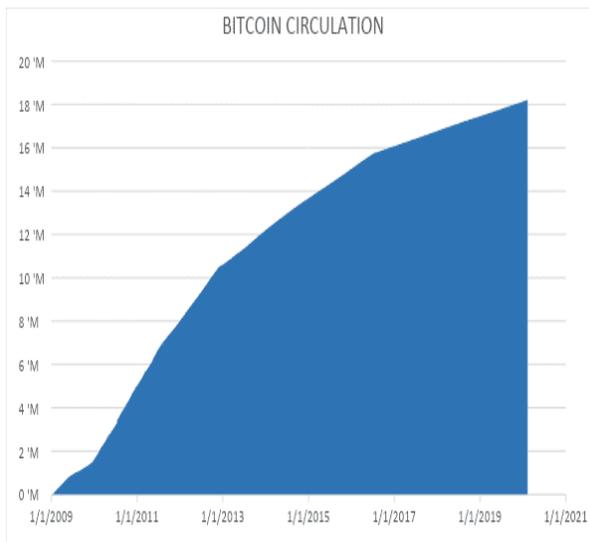
**Keywords:** Cryptocurrency, bitcoins, legalization, RBI, finance, economy, transactions, exchange

### Introduction

The proposal for Bitcoins was initially postulated by an anonymous individual named Satoshi Nakamoto in 2007. Its domain name Bitcoin.org was formed and a notification was codified that defined the characteristics and safety measures so that it cannot be plagiarised in 2008. Nakamoto and Hal Finney, a miner first transacted in digital currency in January 12, 2009. Cryptocurrency is an encrypted tool that facilitates decentralised form of network of transactions which is monitored by the users, themselves. These type of payments and transactions are basically reigned by Bitcoins, supported by Litecoin, Dogecoin, Dash, Kitehcoin, Lottocoin, Ripples, etc. Bitcoins are generally speculative and can enhance the growth of economy in future but



unfortunately, there are very less in number who can acknowledge the idea of Bitcoins or any digital currency. 21 million Bitcoins can only be circulated by 2040 and with each passing year, the urge for digital currencies will reduce<sup>12</sup>. 18 million bitcoins are mined so far (12.2.20) and it is expected to reach 21 million within the next speculative years.<sup>3</sup>



**Fig. 1**

### **Evolution of Cryptocurrency**

Bitcoin was first introduced in a paper Describing Digital currency in 2008 by a certain individual, named, Sakashi Nakamoto (one or a group of people). It was launched in

the following year as a demonstration called the Bitcoin Network. Unlike any other previous currencies, there is no supervisory body that governs the usage of bitcoins in the global market. Anyone who can access the internet or an Application-Specific Integrated Circuit (ASIC) can transact in Bitcoins or generate such virtual currencies, by an approach, generally termed as Mining. This runs through an online mode of decentralised transaction; therefore, each participant has their own copy of the transaction and stores their money in their virtual wallet. Transactions as small as .00000001 Bitcoins can be made and its value changes like any other currency varying with what the buyer is willing to pay. Bitcoin is essentially decentralized in nature unlike its digital currency counterparts like Visa, Mastercard or PayPal. There is no central body to guarantee the money invested in bitcoin, instead it is secured and guaranteed by encryption (a 256-bit SHA algorithm).

Bitcoin Mining is a way of generating bitcoins by solving complex mathematical problems of repetitive nature in a competitive manner by which a person is able to add a block into the world bitcoin ledger which upon successful completion results in the miner being paid 25 bitcoins which is created thus adding to the blockchain<sup>4</sup>.

<sup>2</sup>Dr. Smt. Mahananda B Chittawadagi, "Impact of Demonetization on Bitcoin- A Study" International Management Research Review, IMRR, ISSN 2231-25011, Volume V, Issue 1, March 2017.

<sup>3</sup>Ameer Rosic, "How many Bitcoins are there? – 85% of the Bitcoins are mined" Blockgeeks, February 2, 2020.

<sup>4</sup> Chris Rose, "The Evolution of Digital Currencies: Bitcoins, A Cryptocurrency Causing A Monetary Revolution" International Business & Economics Research Journal, July/August 2015, Vol. 14, No. 4.



According to the Forbes article that was published in the year,2017, Bitcoin saw a lot of UP's and Down's between 2010 to present day.

Since it's first valuation in 2010, it was hard to assign value to the currency as people mostly mined Bitcoins instead of trading them, 2011 saw new cryptocurrency emerge as competitors to Bitcoin. 2013 saw Bitcoin prices rise as much as 1000\$ and soon plummeted to as low as 300\$.



### **It's rises in India:**

Over the last few years, one billion people in India obtained resurrection in the economic market and further, was addressed as the "**fastest growing emerging economy**" by the International Monetary Fund. More than 40% of the population in India have adequate access to telecom and Information Technology. Since 2012, bitcoins were generally used by the crypto enthusiasts. By 2013, Bitcoins came in the forefront with a restaurant named "Kolonial" in Mumbai, that started it's transacting in bitcoins. Thereafter, BtexIndia, Unocoin, Coinsecure, Zebpay, Koinex, Bitcoin-India came up<sup>5</sup>.

### **Bangalore cryptocurrency ATM**

#### **Fig. 2**

### **OTC and ATMs in India.**

Crypto ATMs are disseminated in every continent. The Unocoin CEO, Sathvik Vishwanath stated that he aims to extend 30 contrivances in three different Indian cities. He further disclosed that he will first, station one crypto currency ATM in Bangalore, proceeding with Delhi and Mumbai. He also highlighted that these ATMs would engage in crypto- crypto transactions, with appropriate demarcations on deposits and withdrawals per transaction. The minimum exchange rate for deposits and withdrawals are set with a boundary of ₹1000 (\$ 13.57).

In 2013, the Bangalore Crypto ATM has now 120 full-time employees and its transactions are increased to 2 billion within 1.3 million customers<sup>6</sup>.

According to the Coin ATM Radar, on January 10, 2019, crypto currency ATMs

<sup>5</sup> Shailak Jani, "The Growth of Cryptocurrency in India: Its Challenges & Potential Impacts on Legislation" ResearchGate, 26 April 2018.

<sup>6</sup> Kevin Helms, "30 Crypto ATMs Launching in India- Unocoin Unveils Solution to RBI Banking Ban" Bitcoin.com October 14, 2018.



arose to 4,000 and above worldwide. This led to 4.9 current growth in gauge scale<sup>7</sup>.

Oceania and 1.1% to 0.2% is stationed in South America and Africa.

Crypto ATM Installation Speed

Source: coinatmradar.com



**Crypto currency ATMs growth in the gauge scale.**

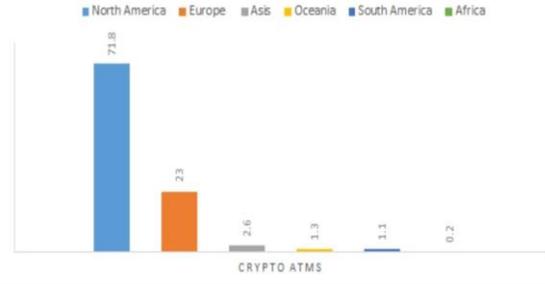
**Fig.3**

This table highlights the Crypto currency ATMs worldwide.

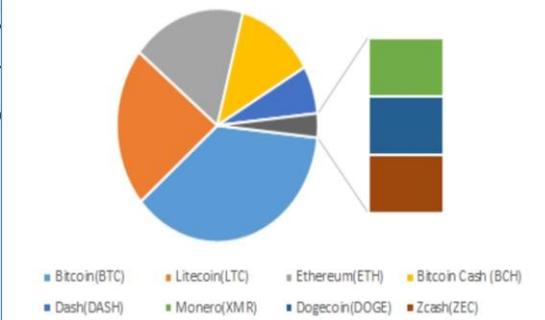
**Fig.4**

Out of the total 4167 crypto currency ATMs worldwide, 71.8% is in North America. 56% is in the United States. 15% is in Canada, 23% is in Europe, 2.6% is in Asia. 13% is in

CRYPTO ATMS IN EVERY CONTINENT



ATM Supporting Crypto types



Notwithstanding, within Asia, Hong Kong has the highest allocation of crypto currency ATMs of about 0.8%. Within Europe, Austria made its way to the forefront by 6.4% cryptocurrency ATMs, followed by United Kingdom by 4.8% cryptocurrency ATMs.

Although 99.9% of these ATMs are supported by Bitcoins, 64.6% are supported by altcoins. Whereas Litecoin, Ethereum, Bitcoin Cash, Dash, Monero, Dogecoin and Zcash are supported by 59.5%, 49.3%, 33.9%, 17.9%, 3%, each.

<sup>7</sup> Marie Huillet, "Almost 5 New Cryptocurrency ATMs Installed Worldwide Each Day, Data Shows" COINTELEGRAPH, January 11, 2019.



This data does not extend to India's statistics of Crypto currency ATMs because the individual who uncovered the first Bitcoin ATM in Bangalore was incarcerated under several criminal charges because that invention was not an ATM, exclusively but empowered users to evade the financial arms. According to Coin telegraph, by March 3, 2020, 7,000 cryptocurrency ATMs escalated in around 75 countries. The first ATM, in 2013 was stationed by the company, Robocoin in the Vancouver coffee shop, observed \$10,000 BTC transactions. Today, within 7,000 ATMs, two locations were organised by Robocoin. (coin ATM Radar). It was further detected that; 11.7 new ATMs are being posted each day. Bitshop, a bitcoin ATM company, allied with Simon Mall in United States and sited five apparatus in five different malls. Another, Florida's Miami International Airport, also installed one from Bitshop in the latter part of 2019<sup>8</sup>.

#### **Impact of Cryptocurrency over the global economy.**

Bitcoins are predominantly, clutched by the bankers, companies, Government etc. They either want to become rich or pave a way for easy trade. Nevertheless, there are repercussions of the same.

Virtual currencies require no intermediary for their financial transaction, unlike traditional transaction. It enhances decentralised mode of transaction. Therefore, as there is no service provider to regulate activities, it becomes onerous to monitor any financial obstruction which can create hindrances in the global level.

Cryptocurrency has no link with the US dollars, ordinarily functions as the global currency. The investors dealing with cryptocurrency transactions do not follow any policies stated by the US and further, violates many such economic policies. Cryptocurrency transactions are different from any other form of transaction. Venezuela, while disclosing that they were transacting in Cryptocurrency stated that such exchanges are governed by oil supply. Cryptocurrency also, grants speculators or tycoons to elevate wealth or assets without any traditional mode of exchange. It accesses these entrepreneurs to gain resources with the help of ICO, (a public offering, wherein a start-up has to dispose of some shares of their cryptocurrency to certain financiers for fund) instead of requesting venture capitalists to transact in them. Many countries, such as the People's Bank of China has banned and restricted such mode of transaction. The Securities and the Exchange Commission evoked to issue an admonition against ICO as they believe that it's not authentic and further, gives rise to disruptive measures.

Cryptocurrency also, prompts certain snags in the ordinances due to anonymity which can give rise to non-payment of taxes. One example of anonymity: The Silk Road, an online marketplace which came in the fore front due to illegal buying and selling of contraband substances in the dark web. This business was entirely anonymous, and no one could have traced who is purchasing and selling.

It also gave licences to international investors for investing in their home country. Around

<sup>8</sup> Benjamin Pirus, "There Are Now Over 7,000 Cryptocurrency ATMs Worldwide" COINTELEGRAPH March 03, 2020.



two billion people have access to telecom and IT. For less developed countries, where credit cards are still not accepted as to run a business, crypto atmosphere makes it accessible to run such business, in their platform. It helps the countries with weak economies or when the economy becomes stagnant, as virtual currencies can still be accessed and does not require banks to invest in the internet economy. It also helps the migrants who has to pay fees not extending 9% to the financial institution before relocating the money to their respective families notwithstanding, virtual currencies or internet economy makes it free of cost. Therefore, it has both dissentious as well as affirmative impacts in the economy<sup>9</sup>.

### **Demonetization-**

During Demonetization, 40% of the population were using the Internet to invest in bitcoins and cryptocurrency, altogether. In 2016 demonetization policy, it urged for cryptocurrency in the market but in a way, this quashed the growth in the market. However, 2% of the total population in India was under cryptocurrency and the market rates are higher to 5-10%, equating with the global average. Therefore, Indians were able to participate as a subsidiary in the foreign market, with reference to cryptocurrency<sup>10</sup>.

The outburst for e-currency evolved as Bitcoin was priced 52,000 in Unocoin and Zebpay during demonetization. The search for bitcoins was at its peak in google during demonetization in India. The survey

formulated by the Government Sends Tax, 2018, highlighted that within this 17-month transactions, 3.5 billion had exchanged in e-currency that further, adds 200,000 users every month in India. Thereby, they were entitled to send tax to 10 in every 1000 people<sup>11</sup>.

2,500 people invested in Bitcoins in the mid-2017<sup>12</sup>. According to a Forbes article, 600,000 people were using bitcoins through several bitcoin outlets. Amit Bharadwaj, co-founder of the GB miners, stated that in 2019, over 500 traders used cryptocurrency and there are almost five companies in India which accepts payment in cryptocurrency.

Example: Dell.

The Indian Department of Economic Affairs in Ministry of Finance examined how the virtual currencies needs to be modulated. They studied certain factors that might lead to an appropriate regulation of these currencies.

The Reserve Bank of India, 1934, should monitor the cryptocurrency.

2. Anyone found to have invested in bitcoins should be taxed.
3. There should be bonafide guidelines regarding cryptocurrency.
4. IRB should elongate its trade with the international markets and their returns should be taxed.

### **The Reserve Bank of India v. Cryptocurrency.**

<sup>9</sup> Kayla Matthews, "5 ways Bitcoin affects the economy" Technobuffalo May 28, 2018

<sup>10</sup> Shailak Jani, "The Growth of Cryptocurrency in India- Its Challenges & Potential Impacts on Legislation" ResearchGate April 26, 2018

<sup>11</sup> Dr. Mohan Kumar, "Bitcoins in India- A Study of Legal and Economic Aspects" IOSR Journal of Business and Management (IOSR-JSM) February 19, 2018 Vol 20, Issue 2 Ver. V

<sup>12</sup> The Economic Times



On April 5, 2018, the Reserve Bank of India held a press meeting where they highlighted issues pertaining to cryptocurrencies and how they knock the coherence in the market, which gives rise to certain money market frauds, money laundering. etc.

Supreme Court, on the other hand, lifted off the ban against cryptocurrency, that was promulgated by the Reserve Bank of India. This decision was decided by a three-judge bench led by J. Rohinton Nariman, Aniruddha Bose, V. Ramasubramanian.

Initially, the circular was questioned by the IMAI (Internet and Mobile Association of India) stating that cryptocurrency is not a legal tender or a currency under any legal provision.

Therefore, the Reserve Bank of India has no right to enforce a ban. Further RBI affirmed that cryptocurrencies are a mode of payment and that such virtual transactions should be ceased as it might leverage some precarious situations<sup>13</sup>. Supreme court held that *“anything a person can create till it is not violating the existing laws and it is, therefore, a fundamental right.”* So, the companies have the right to create trading in cryptocurrency. It also held that the draft presented by the Reserve Bank of India, lacked the interpretation of violation that virtual currencies might engage in with the financial entities.

After the decision made by the Supreme Court, concerning with quashing off the ban on virtual currencies, that was circulated by the RBI on 2013, the Reserve Bank of India felt that it was necessary to file a review petition as they connote that transaction in the

form of cryptocurrency can jeopardise the market economy and put the financial arms at risk.

After the circular, that was passed by the Reserve Bank of India on April 06, 2018, barring financial services from indulging in cryptocurrency, these financial investors moved to Singapore. However, once the ban was lifted off, these entities moved back to India.

- Siddharth Sogani, founder and CEO of Crebaco Global Inc., (engaged in blockchains and cryptocurrency research), stated that Supreme Court elucidated transacting in cryptocurrencies are legal and therefore, discharges any merchants who are already dealing in bitcoins. He further added that cryptocurrency transactions in India can now legally engage in fiat- to- crypto and crypto-to-crypto partnerships.
- Abhishek A. Rastogi, partner, Khaitan and co., filed a case for cryptocurrency connoting that, Supreme Court may scrutinise the review petition by the Reserve Bank of India, but apparently, investors can operate in cryptocurrencies.

The IT department also studied this matter as they observed 500,000 investors are investing in virtual currencies. Thereby, they enquired whether these investors have paid taxes and if at all cryptocurrencies are goods and services, then, they are entitled to pay the GST for such virtual currency<sup>14</sup>.

<sup>13</sup> Murali Krishnan, *“Supreme Court ends RBI’s 2018 ban on banks dealing in cryptocurrency”* Hindustan Times New Delhi March 04, 2020

<sup>14</sup> Saloni Shukla & Sachin Dave, *“RBI to seek review of Supreme Court order on cryptocurrency”* The Economic Times Bureau March 06, 2020



### Coronavirus (Covid-19) and Cryptocurrency.

Coronavirus has affected the growth of cryptocurrencies. Capitalisation was reduced by half and they lost more than 150 billion in days. Bitcoins was halved to 40% within 24 hours.

- Morgan Creek Digital, (Hedge Fund cryptocurrency co.) co-founder, Anthony Pomplians said that he anticipated this downfall since 2019 and with the large rate cuts and quantitative easing will give bitcoins an attractive outlook.
- Venture Capital's one of the firms, "Kenetic Capital" co. (backbone of cryptocurrency) Managing Partner, Jehan Chu affirmed that *"this will be a formative lesson that will shape the character of this generation of founders, provided they survive the downturn."*

Binance exchanges was also impacted as prices went down due to volatility. Aaron Gong, VP of Binance Futures commented on March 12<sup>th</sup> that their bitcoin prices dropped from 50% to \$3600. Insurance funds lost 50% as Tether (USDT) reserves decreased from 12.8m to 6.2m USDT.

Therefore, they added 5m USDT to safeguard users from liquidation.

*Difference between:* Cryptocurrency exchange and Traditional exchange is circuit breakers, a model that shelves trading for a period when it observes the market is precipitating.

Example: S and P500 halted for 8% but due to circuit breaker, this lasted for 15 mins. But

<sup>15</sup> George Georgiev, "Crypto & Coronavirus: How is the industry affected by the emerging financial crisis?" CryptoPotato April 12, 2020

such operation is not available to cryptocurrencies.

Therefore, bitcoins fell for hours on March 13<sup>th</sup> in Binance.

However, "Huobi" was further discovered that functions as a circuit breaker<sup>15</sup>.

### Legality.

The Department of Justice opined that bitcoins provide statutory commercial aids and has the competence to enhance the global economy. On May 2010, Laszlo Hanyecz, bought two pizzas from Papa John's with 10,000 bitcoins, which was measured at \$ 60 then, however, that value will be somewhere near \$5million now.<sup>16</sup>

Bitcoins are not static, but they vary if they are operated sagaciously as most of it are utilised for certain heinous work which needs to be scrutinised and regulated, accordingly.

### It's stands on India-

As India is flummox about their legalisation of cryptocurrency and with various circulars that are passed by the Reserve Bank of India and their issues regarding banning of such virtual currencies is being quashed by the Supreme Court of India, it can be acknowledged that blockchains operations are still consistent to procure impetus as they are the key to innumerable number of complications which helps them to expand their productivity within several government services. This technology is supported by other virtual currencies as all of them are licensed without a centralised chain of

<sup>16</sup> Chris Rose, "The Evolution of Digital Currencies: Bitcoin, A Cryptocurrency Causing A Monetary Revolution" International Business & Economics Research Journal July/August 2015 Vol 14, No 4

networks<sup>17</sup>. Ramani Ramachandran, CEO of a Singapore based crypto firm coined that ZPX will start to expand their services in India. Neshal Shetty, cofounder of another crypto firm stated that, WazirX will start operating in markets in India. Virtual currencies in India had come to a halt, after the 2018 circular issued by the Reserve Bank of India, barring financial services to conduct operations in cryptocurrencies. The CEO of Block Survey, Wilson Bright, said that, “When a regulator like RBI bans, the market closes down. Six months back, we pivoted from crypto to blockchain, as we had to sustain. No investor was ready to back us amid the uncertainty of regulations,”

After the circular was dismissed, the IMAI and RBI jointly aims to monitor the variations and nefarious actions that virtual currencies can escalate so that the financial entities can appropriately work and transact in digital currencies and can promote creativity within several emerging investors. They (RBI) obviously issued an advisory earlier to make sure it doesn't become the Wild Wild West of crypto and gets too systemic. Now, RBI is better prepared to address the nuances of crypto,” said Akhil Handa, head — fintech and new business initiative, Bank of Baroda. Even the accuracy in the delegated judicial bodies was also interrogated. Salman Waris, TechLegis Advocates and Solicitors, coined further, “The fact that the apex court outrightly shot down a strong policy step by the RBI against a whole industry has consequences on the fairness of our regulators, given their quasi-judicial status.”<sup>18</sup>”

<sup>17</sup> Brandwire “Understanding the Legality of Cryptocurrency in India” The Times of India July 29, 2019



**Fig. 5**

### Regulation of Cryptocurrency-Global Perspective.

**Vietnam-** The State Bank of Vietnam imposed a decree against cryptocurrencies as

<sup>18</sup> Anandi Chandrashekhar, Sanghamitra Kar, Ashwin Manikandan, “Now that crypto trade is legal in India, here’s what happens next” The Economic Times Bureau March 05, 2020



they further highlighted that cryptocurrency is not a mode of transaction, legal tender and anyone deals with virtual currencies shall be liable to pay fine not exceeding 200 million dong, on October 30, 2017. Further, the Governor of State Bank of Vietnam, Le Minh Hung, also stated that for the regulation of virtual currencies, they should accompany the Justice Ministry, to scrutinise and examine the matter.

**Thailand-** On February 12, 2018, Bank of Thailand drafted a circular stating that no such banking sectors shall invest or deal in cryptocurrencies. Bank of Bangkok even ceased exchanges with TDAX (Thai Digital asset Exchange), a Thai company on February 24, 2018. Another bank, Krungthai Bank, stopped exchanges with TDAX on February 27, 2018.

On March 13, 2018 the Cabinet passed the formulations made by two landmark decrees,

- To scrutinise and regulate cryptocurrencies and ICOs.
- To gain capital taxes from virtual currencies.

**Taiwan-** Taiwan's Financial Supervisory Committee, on December 19, 2017, stated that virtual currencies are treacherous, and Taiwan considers such virtual currencies as "highly conjectural virtual product." The badge under bitcoins and other virtual currencies, are examined by SEBA. This statement was also made prior to this convocation, when the Taiwan Central Bank and Financial Supervisory Committee jointly held a conference on December 19, 2013. Following this order, on 2014, January 16, the Financial Supervisory Committee drafted on prohibition of any such virtual currencies in the banks of Taiwan.

**South Korea-** On January 30, 2018, the government executed a regulation that anyone who hankers to invest in cryptocurrencies, initially they are entitled to open a bank account which shall be identified by the cryptocurrency dealer, where shall dealer also is entitled to open his/her account in order to make deposits. Anonymous traders can only withdraw from their e-wallet but cannot deposit. It is entirely age restricted and minors from any country shall not be granted any license to transact in cryptocurrencies.

Reporting and Using Specified Financial Transaction Information Act, allows banks to disclose information's if they feel fit, that the transaction is illegal, or indulges in money laundering. The Korea Financial Intelligence Unit (KFIU) formulates guidelines regarding such mysterious and anonymous actions.

However, on February 20, 2018, Chloe Heung Sik, chief of South Korea's Financial Supervisory Service, approved trading on "standard" cryptocurrencies and uplifted virtual currencies, exchanges in the banking sector. The Ministry of Strategy and Finance accepts cryptocurrencies as capital gains or as miscellaneous income.

**New Zealand-** October 2017, the Financial Markets Authority, drafted complications regarding cryptocurrencies-

- Its explosive.
- New Zealand does not monitor cryptocurrencies.
- Individuals who normally deals with cryptocurrencies, indulges in frauds, Money laundering, etc.
- If ICOs are regulated offers and what kind of services do they provide and



how does it affect the economy at large.

Any cryptocurrency services or business shall abide by the Financial Service Providers (Registration and Dispute Resolution) Act 2008. Reserve Bank of New Zealand spokesperson in 2017, in an article, highlighted that cryptocurrencies will be added in the cryptocurrencies operating system of the bank.

**Nepal-** August 13, 2017 Nepal Rastra Bank stated that transaction dealing in bitcoins are not legal. In 2017, the Central Investigation Bureau has also incarcerated seven individuals as they had operated their service with bitcoins from several other countries.

**Pakistan-** There is no rule or regulations that monitors cryptocurrencies. May 2017, State Bank of Pakistan, stated that they don't recognise virtual currencies. Further on April 06, 2018, during a press conference by the State Bank of Pakistan, they aimed at making the citizens vigilant about the complications of virtual currencies.

They opined the fact that, virtual currencies are not recognised as a legal tender and that it is strictly prohibited to sell, offer, procure in virtual currencies. They further warned the Payment Service Providers, Payment Service Operators, not to influence their investors to operate in virtual currencies, ICOs. However, on February 10, 2018, the Federal Investigation Agency has discovered models to investigate individuals dealing in cryptocurrencies.

**China-** The People's Bank of China has been examining the entitlement of the virtual currencies for three years. They even

developed an organisation for such digital currencies, the Institute of Digital Money. Zhou Xiaochuan, Governor of the People's Bank of China, in a conference held on March 2018, opined that, bitcoins or virtual currencies are still not entitled to be considered as a medium for any kind of consumer transaction or tax payments. On September 04, 2017, seven central government operations, the People's Bank of China, Cyberspace Administration of China, Ministry of Industry and IT, State Administration for Industry and Commerce, China Banking Regulatory Commission, China Securities Regulatory Commission, and China Insurance Regulatory Commission, came together and drafted the Announcement on Preventing Financial Risks from the Initial Coin Offerings. According to such monetary authorities, these ICOs are not licensed or approved by the centralised authority and they are accepted as a legal tender to make retail payments and further, they are entitled with legal liabilities, unlike traditional transactions and exchanges in such digital currencies should be ceased.

Earlier on December 03, 2013, these regulatory bodies drafted a notification, the "Notice on Precautions against the Risks of Bitcoin" informing the mass about certain nefarious actions it enhances and other nuances it possesses. This circular prohibits the use of bitcoins by the financial entities. They are restricted from selling, offering, purchasing, accepting, trading, in bitcoins. They are also obliged to barred from producing anything in any bitcoin related operations, transacting in Chinese yuan or foreign markets.

**Japan-** In Japan, cryptocurrencies are monitored and examined. Cryptocurrencies are defined in the Payment Services Act



which was further amended in June 2016 and came to effect on April 01, 2017. According to this Act, cryptocurrencies are-

- *property value that can be used as payment for the purchase or rental of goods or provision of services by unspecified persons, that can be purchased from or sold to unspecified persons, and that is transferable via an electronic data processing system;*
- or
- *property value that can be mutually exchangeable for the above property value with unspecified persons and is transferable via an electronic data processing system.*

This Act further acknowledges that cryptocurrencies are restricted to parameters which can only be accessed electronically. It grants license to investors who has entitled with a proper local Finance Bureau to transact in cryptocurrency. The investor should operate a foreign cryptocurrency business company where its members and the office should reside and situate in Japan itself. This company is a foreign company where it is monitored by the foreign government and the regulations should comply with the Japanese Payment Services Act. This company manages exchanges made by their customers and segregates them with their money. This should be monitored by certified accountants. Such financial services should have an agreement with the dispute resolution operators that can acknowledge issues under cryptocurrencies. These businesses should store every financial record with their cryptocurrency exchanges and dispatch such record to the Financial Services Agency annually. The FSA further, examines the record and advices the investors

to facilitate their skill. The FSA may cease or dissolve the company if-

- The company fails to comply with any of the conditions therein specified for the registration
- The registration was not proper and legal
- It contravenes any of the provisions stated under the Payment Services Act.

Coincheck, one of the leading Japanese cryptocurrency transaction platforms, suffered from a loss of \$400 (NEM) on 26 January 2018. The FSA asked them to draft a report and was further issued a business improvement order on 29 January 2018. Also, FSA paid a visit to the site of Coincheck and issued another order of business improvement on March 08, 2018. Cryptocurrency business companies started promoting their idea on building up a newly self-monitoring body on March 2, 2018. However, this act complying with the Prevention of Transfer of Criminal Proceeds Act, the authorities of these businesses are entitled to scrutinise the accounting records of the customers and hand over the matter to the supreme hierarchy when they observe any sort of nuances or nefarious actions. According to the National Tax Agency, the surplus earned from such digital currencies are evaluated as miscellaneous income and not capital gains, under the Income Tax Act.

**Bangladesh-** The Central Bank of Bangladesh on December 24, 2017 delivered a news that notifies the citizens to be aware that cryptocurrencies are illegal in Bangladesh. This circular was made because they were of the view that transacting in virtual currencies can contravene the statutory provisions of money laundering and



terrorism Act. Transactions in virtual currencies are not approved or monitored by the central authority or any crime prevention acts i.e. The Foreign Exchange Regulation Act, 1947, Anti-Terrorism Act, 2009, Money Laundering Prevention Act, 2012. Further, as they don't have any payment method which is governed so any anonymous user or any individual who does not disclose his/her identity, may violate provisions of the abovementioned Acts. Also, people who will transact in virtual currencies may hinder certain provisions as they won't be aware of the rules regarding such virtual currencies which might lead them to face legal liabilities. Moreover, investors are restricted from executing, abetting, publicising any crypto-related entities.

The Foreign Exchange Police Department, Bangladesh Financial Intelligence Unit, Bangladesh Telecommunication Regulatory Commission, has already promulgated four conferences regarding the prohibition of cryptocurrency<sup>19</sup>.

**United States-** The United States has normally examined cryptocurrency transactions positively. Certain entities like, Dish Network, Microsoft Store, Sandwich retail Subway, Overstock.com accepts remission in bitcoins. With time, the virtual currencies were observed in the United States financial security markets which enhanced their lawful existence. From 2013, the United States Department's Treasury of Financial Crimes Enforcement Network (FINCEN) has been drafting certain specifications, recommendations regarding virtual currencies. This Network has elucidated that

Bitcoins and Virtual Currencies are not only paper money or a legal tender, but also Money Services Business (MSB), according to the Bank Secrecy Act. Investors under this Act is obliged to keep records, details and files of their business. Also, the Internal Revenue Service has included virtual currencies as a capital that are taxed.

**Canada-** Canada also, has a positive outlook towards Bitcoins. They also monitor such businesses so that these businesses do not enhance money laundering. Canada Revenue Agency considers bitcoins as a property or a product that is like barter system and the profit maximisation is considered as business income. This business also separately examines if it is only buying and selling the products or indulges in spending, significantly. Canada also observes bitcoins as Money Service Business (MSB). Bitcoins transactions in Canada are generally complying with provisions of Anti- Money Laundering laws. Citizens of Canada, who are interested in bitcoin businesses needs to register themselves in the Finance Transaction And Report Analysis Centre of Canada (FINTRAC) and hand over any nefarious actions to the authorities. Notwithstanding, there are some banks in Canada that has prohibited transaction in bitcoins through Debit and Credit cards.

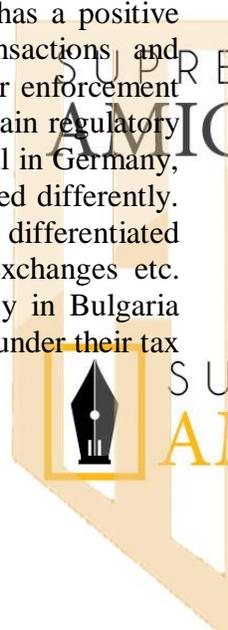
**European Union-** The European Court of Justice, on October 22, 2015, notified that virtual currency transactions are assessed as allocation of resources but are excluded from evaluating these services through Value-Added Tax (VAT) in all European Union member states but some has already

<sup>19</sup> "Regulation of Cryptocurrency Around the World"  
Library of Congress Law, August 16, 2019

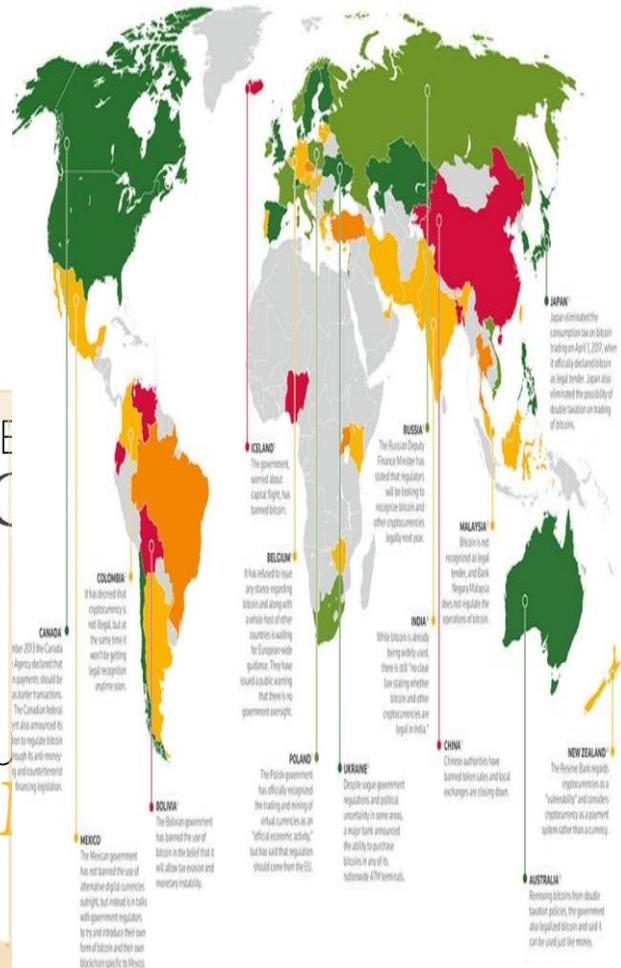


discovered their licit stances on bitcoin transaction. The Central Board of Taxes has excluded Bitcoins from Value-Added Taxes as they consider virtual currencies as a financial entity in Finland. In Finland, Bitcoins are rather treated as a product and not a legal tender. In Cyprus, Bitcoins are neither monitored nor governed. Also, the Federal Public Service Finance in Belgium excludes bitcoins from getting evaluated under the Value-Added Taxes.

However, Bitcoins are controlled under certain tax laws in the United Kingdom. The Financial Conduct Authority has a positive outlook towards bitcoin transactions and hankers for support from other enforcement agencies to come up with certain regulatory policies. Bitcoins are also legal in Germany, but they are taxed and governed differently. These transactions are differentiated between, miners, investors, exchanges etc. The National Revenue Agency in Bulgaria also added bitcoin transaction under their tax laws<sup>20</sup>.



# A WORLD OF CRYPTOCURRENCIES



Read about all of the countries at [thomsoneuters.com/knowledgeapp](http://thomsoneuters.com/knowledgeapp)

Fig.6

<sup>20</sup> Prableen Bajpai, "Countries where Bitcoin is legal and Illegal (DISH, OTSK)" Investopedia May 09, 2019



### Survey Analysis-

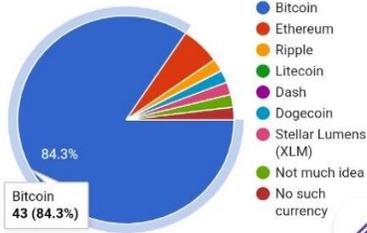
This research was carried out by doing a small survey and collecting 51 responses from people in the age group of 18-60 and having a wide response from them. The questionnaire will be uploaded as an annexure at the end. So, it was found out that Bitcoin being the most affirmative among the many other virtual currencies, next being Ethereum followed by the rest. The reasons behind using cryptocurrencies are wide. Some popular reasons stated by the audience being, 1. investing and earning money (5 out of 51 people). 2. 5.9% have no knowledge about any virtual currency. 3. For purchases on dark web (2 out of 51). 4. It is decentralised and further such currencies are immune from government intervention (3 out of 51). 5. Allows user to control their money (1 out of 51). 6. As a medium of exchange (2 out of 51). 7. Non-taxable and no interest on return (1 out of 51). 8. Trading and ease of payment and quicker mode of transfer of funds (3 out of 51). 9. Prevents fraud (3 out of 51). 10.” *Bitcoin is a collection of computers, or nodes, that all run Bitcoin's code and store its blockchain. A blockchain can be thought of as a collection of blocks. In each block is a collection of transactions. Because all these computers running the blockchain have the same list of blocks and transactions and can transparently see these new blocks being filled with new Bitcoin transactions, no one can cheat the system.* “(1 out of 51). However, the rest did not invest in any kind of virtual currencies. 37.25% have not invested in cryptocurrencies and 62.75% of the audience have used it through Binance, Koinex (now defunct), Stock market, contact and miners, invested in Bitcoin, Litecoin and Dash through Bitpanda trading platform, and the rest have invested through various other mobile applications. It

can also be invested through medium coin base, GDAX and Bitfinex etc. 33.3% of the target audience agreed that cryptocurrencies can be used as a mode of payment in the future, whereas 9.8% did not agree. 7.8% also agreed, given that it is secure. The rest are not sure about it. 25.5% has stated that cryptocurrency can jeopardize the economy with theft and hacking. 23.5% has agreed that it is perilous for the economy as it is decentralised. 17.6% has accepted that it exchanges risks because of anonymity, which was started by 7.8%, 15.7% of the people affirmed that cryptocurrencies can jeopardise the economy because it enhances easy international transactions at 9.8% of the sample. It is further added that due to cheap transactional cost, it might hinder the economy at large. Majority of the people believe cryptocurrencies should have a regulatory body which is entitled to monitor the volatile nature of cryptocurrency by enforcing stringent laws and considering the civilian interests. It was further added that a few cryptocurrencies should be accepted and not all. 21.6% have never used cryptocurrency, 9.8% have rarely used and 5.9% have used it twice or thrice. Out of the 51 respondents, 76.5% were male and 23.5% were female, in the age group (18-24) being the maximum of 74.5%, (25-34) being 21.6%, 2 individuals from (35-44) and (55 or above) respectively. *(follow the figures below)*



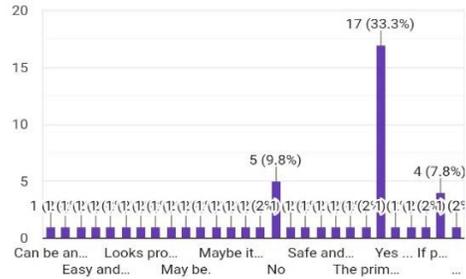
Which cryptocurrency you consider to be affirmative?

51 responses



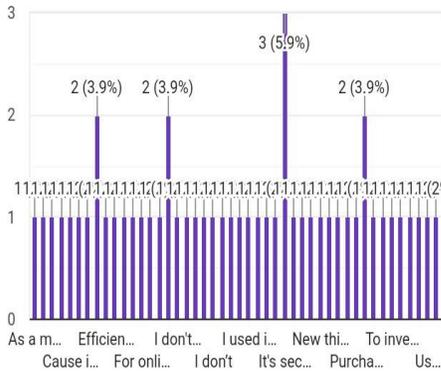
Do you think cryptocurrencies should be used as a mode of payment in the future?

51 responses



Why do you use cryptocurrency?

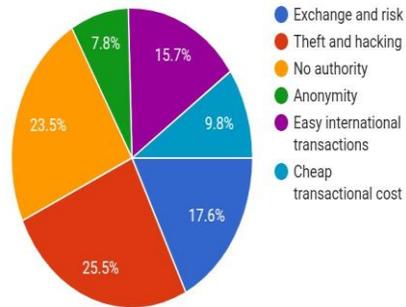
51 responses



PREM  
MICU  
SUP  
AM

Can cryptocurrency jeopardize the economy with

51 responses

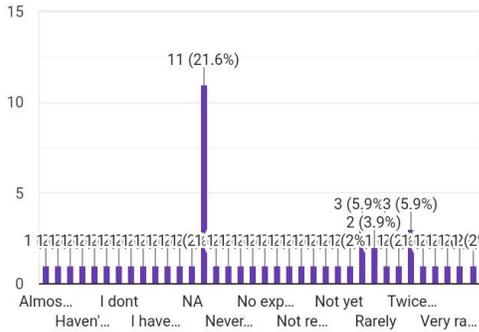




How often you use cryptocurrency?

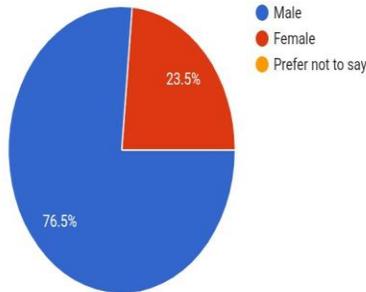
**Fig. 7**

51 responses



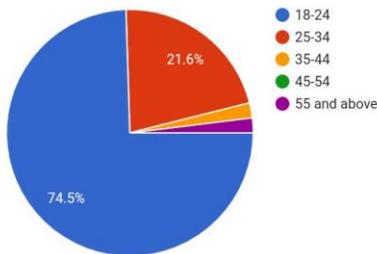
Gender

51 responses



Age

51 responses



**Conclusion**

This paper aims to distinguish all the variations that digital currency and cryptocurrency intensifies. We are versed with the facts of how bitcoins were conceptualized and how the usage of digital currencies elevated since then. The utility of such currencies is currently 18 million which might extend to 21 million in the coming years. This paper has also elaborated the countries which has now accepted the use of digital currencies, with countries that are against such use. It also elucidates the reasons latching with the legality of digital currencies. If we agree on the stance that, digital currencies emerge at the time of recession, when banks are closed and laymen has to suffer, it paves a way for the customers to invest, electronically, sitting back in their comfort zone, without any government interference. We are also bound to accept the fact that the Internet is accessed by 59 percent of the global population<sup>21</sup>, the rest are deprived of accessing the Internet, which can thereby, be perceived that these deprivation will not be beneficial for them to acknowledge the idea of investing money, digitally. Therefore, if digital currencies are regulated it will only be pleasant for a class of people.

Meanwhile, there is an organization, Give Crypto, that aims at disposing the funds that are donated by individuals for the people in

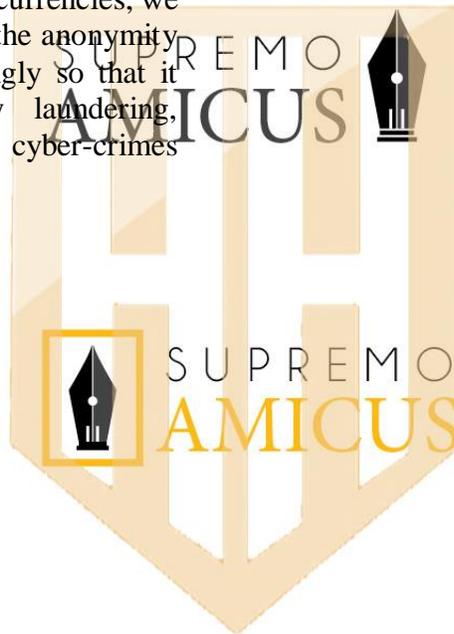
<sup>21</sup> J. Cement, "Worldwide digital population as of April 2020" Statista April 24, 2020



poverty, without any intermediary or any charity funds, etc. This is generally accepted in countries where the inflation rate is immense, and the prices of goods escalate very rapidly. Venezuela has further decided to implement a fresh and new aid program, which will be strictly peer-to-peer and without any central governance or political ideology. A sponsored program shall be formed, where the funds will be deposited to the accounts of the deprived individuals<sup>22</sup>.

Notwithstanding, we have weaker laws for cryptocurrencies and other digital currencies and to regulate the use of such currencies, we need more stringent laws and the anonymity should be monitored accordingly so that it can counter frauds, money laundering, hacking, theft and other cyber-crimes associated with it.

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<sup>22</sup> Blockchain Association, “*How Cryptocurrencies can help alleviate poverty*” Medium June 06, 2019