

Crypto Currency - Its Existence and Legality In India

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Abstract- The release of crypto currency- “Bitcoin” as a new electronic cash system uses peer-to-peer network with complete preventive measures to restrict double spending. It's completely decentralized with no server, no central authority- Satoshi Nakamoto [5]. Crypto currency is limited entries in a database that no one can change without fulfilling specific conditions. Bitcoin is the Global virtual currency and comprises digital payment system. It was released as open source software without anybody's control over the Bitcoin while everyone can take part. Crypto currency is future money because of its tremendous benefits like high end encryption algorithm used while performing peer-to-peer transactions, very minimal transaction fee and higher speed ensuring security of the transaction(s). Though crypto currencies are becoming popular among Indian market place and attracting more and more investors toward it, but still few limitations a drawing it back out of which government rules and regulations are the first and the foremost. The future of crypto currency in India seems veritably bright. Awareness among Indians has risen over the past few years and enormous leading companies in India are showing their interest in virtual currencies. By the time the crypto currency get legalize in country it could become the backbone of ecommerce industry in India. Bitcoin still is not having any legal implication in India but it in itself is not centralized and exists with no control, regulations or guidelines. Where it scintillates itself due to its unique attributes and encapsulated features it on the other hand is also wrapped around in so many issues like implementation of high end security infrastructure, scalability and Cryptography techniques. In all scenarios it is going to the Global future currency generating millions of millionaires for next decade [8].

Keywords- Crypto currencies, Bitcoin, Legality, Mining, Risks, Scope of Bitcoin, Bitcoin as Reward, miners.

I. INTRODUCTION

Online world in terms of financial transaction are providing greater degree of convenience to its customer and the technology involved in Operation are successfully adapted by the society. It's very easy to agree upon a transaction in online mode whether it's a case of credit / debit card or net banking. Even digital wallets are available in the current

market place scenario where one can transact with comfort by just scanning the bar on the QR code (code containing information regarding participating accounts) [5]. Today smartphones are advocating the banking operations through specified applications (mobile apps) and it seems that the world is headed towards and even more seamless future where, all that one have to do is just wave a phone for performing a successful transaction. Considering all modes of transactions (apart from cash transactions) the major concern attached with transactions are online threats in assessing and transferring the amount and hence there is a need of middleman who is taking a part of the spend as a fee for his contribution in delivering the money, ensuring that there is no misuse and for the purpose of log maintenance (record keeping) [1].

Credit card companies like Visa / MasterCard are deducting up-to almost 3% of the transaction value as fee for providing their services and the situation is similar with E-wallet players in existence. More often than not, this has to be borne by the seller only. Ultimately the need of something arose where these additional overhead charges could be eradicated incurred by middleman ensuring the consistency, reliability and security intact.

II. CRYPTO CURRENCY- AWARENESS, GENERATION AND RISKS INVOLVED

Crypto currency or virtual currency is described as peer-to-peer currency that is completely decentralized and operates without any intermediary. Focused area in such financial operations are the way by which the transaction are performed and the record maintenance in ledgers ensuring higher level of trustworthiness and security and these concerns are well handled the way crypto currency operates [1][8]. There are n participants associated with the crypto currency operations at a particular time generally known as mining pool and the copy of a record / ledger is published to everyone instead of trusting any single person for the purpose. Bitcoin is a king of crypto currencies and whenever a bitcoin is spend the corresponding entry is made in everyone's ledger (using Blockchain Technology) and the purpose of this is to ensures that no one can cheat the system. As the code is on this ledger which executes as an open source hence, leads it to be

maintained, secured, improved and audited in the public domain under everyone's watchful eyes.

There are number of ways to acquire Bitcoin where the first and foremost method is to dedicate the hardware resources like graphics card with higher hashing power of solving or processing the complex problems related to the Blockchain operations. Blockchain is a chain of blocks of generally of 1 MB containing sensitive information with regard to the crypto currency operation(s) and in a reward to solving this Complex computations the resource (known as miner) is awarded with a bitcoin ^[4]. The complete process is known as mining and in fact, this is the only way Bitcoin can be generated. The second and the easiest way is to buy it from online Crypto exchange(s). The trend of accepting Bitcoin as a payment or simply trade local currency with someone offering Bitcoins as barter is also coming in existence. In order to operate transactions with Bitcoins or crypto-currency the participating parties are required to have a corresponding E-wallet address with respect to the crypto-currency involved in transaction. The transactions are performed completely peer-to-peer without any intermediary ^[1].

The manner in which its founder's Satoshi Nakamoto, have already envisioned it have put the total capping of 21 million Bitcoins only. The greater the numbers of Bitcoins are in circulation the lesser will be the speed at which they are created or mined and hence, inflation will not be the issue with Bitcoins but it still has its own set of technical challenges ^[5].

As the currency is divorced by government and reserve or central banks, it is not backed with anything. In case of any losses in regard to erroneous transactions may related to wallet addresses or security breaches, there is no chance of any rollback facility of the operation already performed. Further, as they have no inheritance value of their own there worth exists only because of community willing to accept the Bitcoin.

III. CRYPTO CURRENCY - EXISTENCE AS REWARD

In April 2013, unexpectedly the crypto currency Bitcoin went from trading at \$266 to about \$50 and then again rose to \$100. By the October of a same year the price was again crashed from \$ \$140 to \$110 after seizing the dark web portal "The Silk Road" by FBI and as people attempt to capitalized on this fall, the price again rose about \$200 in just next couple of weeks. By November 2013, it was trading at over US \$1000 at one of the famous crypto exchange named Mt. Gox. By April 2014, the price fell again to\$ 400 and even

dipped to \$ 100 in early 2015. However, in the last few months, Bitcoin has really rallied to climb over \$4000 in August 2017 ^[2].

Considering, the most precious factor of the system in retaining participating parties anonymous among the quicker, cheaper, secure and more reliable middleman excluded operation, makes it so popular on the dark web portal. Unfortunately, people use it to buy drugs, arms and even services of Hit man on the Silk route before it was shut down. During the period when demonetization hit the country, number of people turned to Bitcoin and other crypto currencies in hope of staying outside the tax net ^[2].

Search scenarios clearly advocates that the crypto currency is never favored by the government, but tendency to appetite for risks, crypto currencies are something that may grow even more as there is total capping limit of 21 million only ever that can exist. From \$50 to over \$4000 currently is extreme exponential rise that has generated many millionaires. Awareness and acceptability regarding Bitcoin and other crypto currencies are growing rapidly with mainstream. Companies like Expedia are also getting on board. Crypto currencies are so hottest cake selling in the market at the movement that an offshoot of Bitcoin called Bitcoin Cash was created only on 1st August 2017, that it has crossed a valuation of \$7 Bitcoin a day ^[1].

IV. CRYPTO CURRENCY – LEGALITY STATUS IN INDIA

As crypto currency particularly Bitcoin is gaining confidence among the investors and attracting common people, the Government of India could finally be moving towards compliance. Considering the potential and gravity of crypto currency CNBC India report put its effort mentioning that a committee of finance ministry officials, Income Tax ministry officials, NITI Ayog, and Reserve Bank officials may be inching closer on the proposal of legalizing crypto currency in India. Legalization of crypto currency in India would have following impacts ^[2]:

- Reserve Bank of India's 1934 Act will be considered over Bitcoin.
- Investors in crypto currency class would be taxable.
- Procurement selling of Bitcoin will be in compliance with guidelines that will be published by RBI.
- In case of any foreign payment including Bitcoin as a payment, would fall under the preview of FEMA Act.
- All returns on crypto currencies investment would be taxable.

India is accounted for 16754.76 coins by the portfolio trade volume and is ranked 4th among the global crypto currency trading market. At the moment crypto currency is at its full swing, the news published at the same time in May 2017, by Bitcoin trade analyst Chris Burniske, highlighting that the crypto currency trade from India is accounted for 10% of global crypto currency trading participating in paradigm shift of future currency. India still mulls over legalization of crypto currency, China's Central Bank The People Bank of China has already develop a protocol of crypto currency that it could explore while circulating the same in near future. It may introduce as the China's primary currency, The Renminbi or the Yuan and stimulate the future scenarios using crypto currencies mock operations (transactions) in collaboration with some commercial Chinese Banks ^[2].

Although there is lack of regulations in the Indian Digital Currency Industry, still few bitcoin exchanges have erupted and initiated self-regulated trading platforms along with strict KYC (know your customer) and anti-money laundering system from past few years. It includes companies like Zebpay, Coinsecure and Unocoin. One of the India's leading Bitcoin Company Unocoin rose a funding of \$1.5 million in pre series A round ^[3]. Similarly, Zebpay raised \$1 million in pre series A funding round in January 2016 and it was funded from Angel Investors.

Furthermore, RBI also mentioned the significant impact of 'Private Blockchain' on banking sector in its Financial Stability Report published in December 2015 mentioning that the private Blockchain setup could bring revolutionary changes in functioning of banks such as increased speed and cost-effective financial services ^[9].

In an interactive session with students organized by NDTV and RBI Governor, Raghuram Rajan said that Indian society is heading towards becoming cashless. In this transformation, virtual currencies will be safer in future and will be the 'form of transaction'. Contrarily, he also raised his concern over the ways bitcoin could easily be misused and other issues related to security ^[4].

On December 24th, 2013, Reserve Bank Of India also released a press note-“ RBI Cautions Users Of Virtual Currencies against Risks.” where RBI cautioned the users, holders and traders of digital currencies about various issues like security, customer protection and legality related risks involved with it. After this on February 1st, 2017, with the back of this earlier press release, RBI clearly put forwarded its stand on virtual currencies that any license / authorization to any organization has not been given by RBI and community using it will be responsible itself for any risks incorporated

with it. Subsequently, on April 12th, 2017, inter disciplinary committee has been formed by the department of economic affairs in the Ministry of Finance in India to examine the existing framework of virtual currencies ^[6]. Simultaneously, India bitcoin startups have launched their own self-regulatory entity named Digital Asset and Blockchain Foundation of India (DABFI). It is jointly regulated by Zebpay, Unocoin, Coinsecure, Searchtrade and Bitxoxo which aims to aware people about risks involved with crypto currencies ^{[8][2]}.

V. IMPACT OF BITCOIN LEGALIZATION ON INDIA

Legalizing Bitcoin in India will have its most prominent impact on trading volume and activities related to Bitcoin will increase by significant margins. Where on one hand it allows crypto currency startups to address concerns over security and risk involved with the use of Bitcoin, eventually will also shift the focus over improving infrastructure, contemplating the average consumer legalization would also help to remove apprehensions around its reliability and future aspects under consideration. On the other hand, there have been reports of Bitcoin and other crypto currency trading amounting to the money laundering and that it propagates to financing terrorist outfits. With the proper guidelines issued, crypto currency has other benefits too and one of them is gaining enough confidence and trust in private money over stable currencies ^[3].

VI. CRYPTO CURRENCY – SCOPE AND CONCERN'S IN INDIA

In preview, the government made legalize Bitcoin and other crypto currency, service providers will also mushroom the expansion and scope of its usage. Currently Bitcoins are used to make purchases through mobile apps, buying gift voucher for air time top ups and for paying bills but in near future, more sophisticated infrastructure will tend to provide support remittance to India and along with enhanced online financial solutions for the country's unbanked and underserved population.

Crypto currency especially Bitcoin makes it extremely easy to transfer a small remittance which could save up to billions in fee paid to third parties for countries like India and which is considered as the world's largest remittance market at over \$60 Billion annually. Taking a closer look over India, the scenario is to ripe the leverage of the crypto currency revolution especially when Bitcoin price are surging through the roof, breaking all its previous records in the month of August 2017 above \$4000 which is 3000% over this year achieving a new milestone all together.

Developers of Blockchain technologies are launching the sale of new Blockchain-based digital currency or tokens called EOS. This is one step ahead in the latest capital rising exercise by technology startups developing and launching its own digital currency and selling tokens to the public also known as ICO (initial coin offering) ^{[2][7]}.

The company predicts and expects that the EOS will be utilized by large businesses, support corporate to automate process, monitor assets and widening their technological horizons by creating multiple applications.

As far as financial sector is concerned, crypto currency is holding a promising potential future in Indian market place. As per report published by Bitconnect, India accounts over 1 million user and keeping and the ball rolling every day thousands of users are flocking to the concept. In fact exchanges have been overwhelmed leading to down time and slow processing of directions operations in the mid of 2017. The leading Bitcoin wallet service providers Zebpay in India reports over 500000 downloads of its Mobile application and is adding about 2500 new uses every day, at the same time doubts about Bitcoins are also abounding ^[7].

As per vice president, Spice Digital Limited, Indian citizens are currently little apprehensive about investing too much in Bitcoins due to lack of awareness and wondering about the kind of taxes and returns attracted by it in future. It also attracts the unwanted attention if and when one requires withdrawing or liquidating the asset the scenarios that has to be faced and the kind of returns on investment that one may get is a still under suspense. Presently, three reliable exchanges in India performing their operations and services in full swing but once it is legalized, bigger and more reliable service providers may get into this and ultimately the existence of new reliable exchanges will further contributes to more trade by Indians.

The prediction is that the apprehensions of Indian Bitcoin traders will hopefully be taken care of in the near future as and when Government and RBI ^[3] provide proper guidelines and legalize it. Hence, enabling many Indians to legally partake and reap benefit from the global phenomenon of crypto currency and the underlying technological advancements of Blockchain. However, on global Front crypto currencies has a long way to cover up and par howmuch.net, Bill Gates net worth at \$86 Billion is 2x times the market capitalization of the Bitcoin market at \$41 Billion ^[2].

VII. CONCLUSION

Undoubtedly, crypto currency have enormous advantages over the existing hard currencies and accepting it as a contributing part of economy will impact the growth of any country. As there is a capping over the number of Bitcoins that ever exists, makes it certainly the center of attraction for economic analysts, investors and governments. Though it is grabbed by so many technical limitations in context to security and usage still it has become the integral part of many developed countries. India is also in the process of legalizing the Bitcoin with a pending proposal of draft guidelines. Indisputably, legalizing crypto currency is going to impact India in a positive approach adding fuel to the dream fire of digital India and as well as E-commerce industry. Considering the speed of awareness the way it is spreading In spite of so many challenges and apprehensions, the day is not far the common man will feel the system more convenient, secure over the traditional systems and transform the assets in the form of crypto currencies. Post legalization, everyone has to be in compliance with the guidelines and companies are to maintain the KYC policy. At the moment it is the time to ripe the leverage of the crypto currency revolution as the current price and the future predictions are quite impressive. Accepting Bitcoin could save up to billions in fee paid to third parties for country. Though crypto currency Bitcoin is under the process to become mainstream in India, the underlying technology- The Blockchain Technology with which it is backed has caught the responsiveness of several Indian banks.

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