

## CRYPTIC CRYPTOS



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### FROM THE DESK OF CHAIRMAN

In recent times, digital currency i.e. crypto currency has seen a lot of investment interest by people all over the world and gaining much popularity in younger generation. Naturally being technology driven, the so called currency is becoming more and more acceptable by young generation and increase in valuation in crypto currency has drawn much attention of investing fraternity.

History of crypto currency dates back to 1983, and then evolved into modern day virtual currency in later part of first decade of this Century. In fact the word "cryptocurrency" was added to the Merriam-Webster Dictionary as late as in March 2018. According to Jan Lansky (Ph.D. - working at the Department of Computer Science and Mathematics, The University of Finance and Administration - doing research in Cryptocurrencies, Databases, and Software Engineering), a cryptocurrency is a system which meets six conditions, i.e., (1) The system does not require a central authority; its state is maintained through distributed consensus (2) The system keeps an overview of cryptocurrency units and their ownership (3) The system defines whether new cryptocurrency units can be created. If new cryptocurrency units can be created, the system defines the circumstances of their origin and how to determine the ownership of these new units (4) Ownership of cryptocurrency units can be proved exclusively cryptographically (5) The system allows transactions to be performed in which ownership of the cryptographic units is changed. A transaction statement can only be issued by an entity proving the current ownership of these units (6) If two different instructions for changing the ownership of the same cryptographic units are simultaneously entered, the system performs at most one of them.

Having no physical existence and being technology driven, it is not very easy to understand how the crypto currency is generated, traded, kept, transacted, determination of value, even its technology architecture for layman or public at large. Interest it has drawn is mainly due to people considering it as an alternate investment opportunity. Interestingly, there are as many as 9000 different Cryptocurrencies presently available.

In simple terms, as we all understand, the cryptocurrency which is virtual and has no physical existence, largely it is not regulated, it is not recognized as official currency or legal tender by government authorities, it is difficult to trace, being virtual easy to store and provides privacy yet vulnerable to frauds.

The very fact that cryptocurrency cannot be regulated easily due to its inherent nature, governments world over are perplexed how to deal with it. Surely such currencies cannot be allowed to be parallel economies or it can ruin the economic system of any country, at least that is the fear and not without reason. The main reasons being secrecy behind dealings in cryptocurrency, no physical existence makes it really difficult to regulate it. Countries have though started introducing and increasing regulations in the dealings of cryptocurrency, yet a lot needs to be done in this direction. E.g. at present, India neither prohibits nor

allows investment in the cryptocurrency. In 2020, the Supreme Court of India had lifted the ban on cryptocurrency, which was imposed by the Reserve Bank of India. Since then the investment in cryptocurrency is considered legitimate in India though there is still ambiguity. Also India amended its tax laws to levy taxation of gains in transactions of crypto currency. However, taxability of any income or transaction does not automatically make the dealings legitimate. It is expected that the Indian Government will soon introduce specific law to either ban or regulate the cryptocurrency in India. But in absence any such law, people are increasingly investing or trading in cryptocurrency. On the other hand, China has completely banned and the Chinese government declared all cryptocurrency transactions of any kind illegal. Interestingly, however, China's central bank has been working on introducing an official digital currency of its own and, in September 2021, announced that it had completed pilot tests of its e-CNY digital currency in several cities. The e-CNY token has been developed to replace cash and coins and will be accepted as payment for goods, bills, transport fares, and tolls. In the USA, the cryptocurrency exchanges are legal and fall under regulatory scope of Bank Secrecy Act. Meanwhile, the US Securities and Exchange Commission (SEC) has indicated that it considers Cryptocurrencies to be securities, and applies securities laws comprehensively to digital wallets and exchanges. Cryptocurrencies are not legal tender in Canada but can be used to buy goods and services online or in stores that accept them. Canada has been fairly proactive in its treatment of Cryptocurrencies, primarily regulating them under provincial securities laws. Canada brought entities dealing in virtual currencies under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) as early as 2014. Even in Singapore, Australia, Japan, South Korea, UK, etc. dealings in Cryptocurrencies are legal and regulated. But almost in all countries, cryptocurrency is not legal tender, with notable exceptions being El-Savador and The Central African Republic which have adopted Bit coin as legal tender. However, regulations in all the countries are evolving and there are going to be changes in regulatory aspects in the times to come.

One cannot deny the very nature of cryptos and dealing in the same being mysterious, uncertain, hard to understand and ambiguous. It goes without saying that dealing in any such virtual asset is highly risky when the same is largely unregulated or under-regulated. The opportunities cryptocurrency provides are largely clouded by inherent threats it has such as secrecy in its dealings leads to thefts, frauds and loss, volatility in its valuation is very high, cross border virtual transactions make it difficult to govern and trace in case of frauds, money laundering issues connected with its dealings are very high [according to block chain data company Chainalysis, criminals laundered US\$8,600,000,000 worth of cryptocurrency in 2021, up by 30% from the previous year], cybercrimes connected with it, speculative nature of the dealings and so on. All these aspects make it necessary to show restraint or show utmost care in dealings in cryptocurrency.

At the outset, on this pious occasion of Paryushan Mahaparva, I seek forgiveness from all of you with folded hands...

*Thank you all.... Always in Gratitude*

*CA Ketan Rambhia*

